

# STATE OF MINNESOTA

## Office of the State Auditor



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

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

**YEARS ENDED DECEMBER 31, 2014 AND 2015**

## **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 150 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 700 public pension funds; and

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

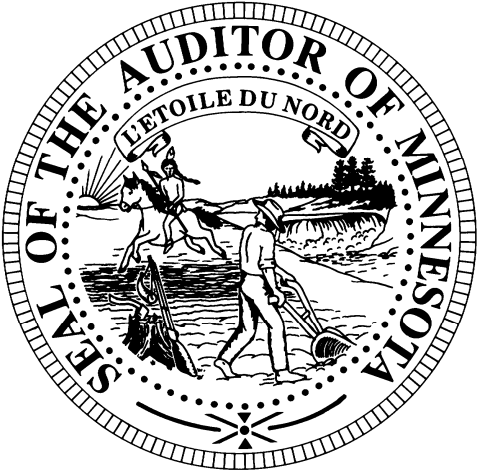
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

**Years Ended December 31, 2014 and 2015**



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

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

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

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

**ORGANIZATION  
2014**

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
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

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

**ORGANIZATION  
2015**

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Bob Fox	Chair	Appointed Yearly
Tom Workman	Vice Chair	Appointed Yearly
Ron Antony	Secretary/Treasurer	Appointed Yearly
Dennis Groebner	Member	Appointed Yearly
Gary Kruggel	Member	Appointed Yearly
Scott Blumhoefer	Member	Appointed Yearly
Julie Rath	Administrator	Appointed Yearly
David Schauer	Legal Counsel	Appointed Yearly



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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT

Board Members  
Minnesota Valley Regional Rail Authority  
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 years ended December 31, 2014 and 2015, 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 from 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, 2014 and 2015, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***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 Governmental Accounting Standards Board, 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 supplementary information as listed in the table of contents 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. 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

September 28, 2016

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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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, 2014 AND 2015  
(Unaudited)**

The Minnesota Valley Regional Rail Authority's Management's Discussion and Analysis (MD&A) provides an overview of the Authority's financial activities for the fiscal years ended December 31, 2014 and 2015. 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 Authority's financial statements.

**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**

- In 2014, the assets of the Authority exceed its liabilities by \$19,822,917 (net position), of which \$19,483,694 is the net investment in capital assets (Exhibit 1), leaving unrestricted net position of \$339,223.
- In 2015, the assets of the Authority exceeded its liabilities by \$20,797,213 (net position), of which \$20,491,956 is the net investment in capital assets (Exhibit 3), leaving unrestricted net position of \$305,257.
- The Authority's total net position decreased \$531,600, or 2.61 percent, in 2014. The Authority's total net position increased \$974,296, or 4.92 percent, in 2015.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This 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 15 through 27 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 2013, 2014 revenues for the Authority's General Fund decreased by \$152,390, primarily due to the completion of the 2012 rehabilitation project. As compared to 2014, 2015 revenues for the Authority's General Fund increased by \$1,395,897 and expenditures increased \$1,472,709, due to the beginning of two rehabilitation projects funded by state bonding money in 2015.

The General Fund balance increased by \$42,846 from 2013 to 2014, for a total unassigned fund balance of \$339,223 as of December 31, 2014. The General Fund balance decreased by \$33,966 from 2014 to 2015, for a total unassigned fund balance of \$305,257.

The Minnesota Valley Regional Rail Authority adopts an annually appropriated budget for its General Fund. A budgetary comparison schedule for 2014 and for 2015 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 \$19,822,917 at the close of 2014, and by \$20,797,213 at the close of 2015. 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.

### Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Assets</b>			
Current and other assets	\$ 769,625	\$ 492,242	\$ 349,225
Capital assets	<u>24,790,845</u>	<u>23,939,183</u>	<u>24,650,406</u>
Total Assets	<u>\$ 25,560,470</u>	<u>\$ 24,431,425</u>	<u>\$ 24,999,631</u>
<b>Liabilities</b>			
Long-term liabilities	\$ 4,298,889	\$ 4,455,489	\$ 4,609,279
Other liabilities	<u>464,368</u>	<u>153,019</u>	<u>35,835</u>
Total Liabilities	<u>\$ 4,763,257</u>	<u>\$ 4,608,508</u>	<u>\$ 4,645,114</u>
<b>Net Position</b>			
Net investment in capital assets	\$ 20,491,956	\$ 19,483,694	\$ 20,041,127
Unrestricted	<u>305,257</u>	<u>339,223</u>	<u>313,390</u>
Total Net Position	<u>\$ 20,797,213</u>	<u>\$ 19,822,917</u>	<u>\$ 20,354,517</u>

### Governmental Activities

The Minnesota Valley Regional Rail Authority's activities decreased the Authority's net position during 2014 by \$531,600, representing a 2.61 percent decrease, and increased net position during 2015 by \$974,296, representing a 4.9 percent increase, primarily because of the Authority's decreases and increases in state bonding money for rehabilitation of the rail. Key elements in this decrease and increase in net position are as follows:

### Changes in Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Revenues</b>			
Program revenues			
Charges for services	\$ 117,600	\$ 113,790	\$ 99,840
Licenses and permits	150,590	130,792	138,800
Intergovernmental	1,341,927	136,675	234,223
General revenues			
Interest earnings	1,432	1,419	568
Miscellaneous	<u>215,372</u>	<u>31,335</u>	<u>92,970</u>
Total Revenues	<u>\$ 1,826,921</u>	<u>\$ 414,011</u>	<u>\$ 566,401</u>
<b>Expenses</b>			
Program expenses			
Economic development	<u>852,625</u>	<u>945,611</u>	<u>827,914</u>
Net Change in Net Position	<u>\$ 974,296</u>	<u>\$ (531,600)</u>	<u>\$ (261,513)</u>
Net Position - January 1	<u>19,822,917</u>	<u>20,354,517</u>	<u>20,616,030</u>
Net Position - December 31	<u>\$ 20,797,213</u>	<u>\$ 19,822,917</u>	<u>\$ 20,354,517</u>

## General Fund Budgetary Highlights

There were no differences between the original General Fund expenditure budget and the final budget in 2014 and 2015.

Actual General Fund 2014 revenues exceeded budgeted revenues by \$190,254, primarily due to more pass-through intergovernmental revenues recognized than anticipated. Actual General Fund 2015 revenues exceeded budgeted revenues by \$1,585,021, primarily due to more pass-through intergovernmental revenues recognized than anticipated and additional car storage rental income.

Actual 2014 expenditures exceeded budgeted expenditures by \$174,366. The more-than-expected expenditures reflect more-than-anticipated repair and maintenance costs. Actual 2015 expenditures exceeded budgeted expenditures by \$1,629,915. The more-than-expected expenditures reflect more-than-anticipated rehabilitation costs which were expended for the two state bonding rehabilitation projects.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The Minnesota Valley Regional Rail Authority's depreciable capital assets (net of accumulated depreciation) at December 31, 2014 and 2015, totaled \$23,348,183 and \$24,199,845, respectively. This investment in capital assets includes land improvements and a building. The Authority's 2015 investment in land improvements increased \$1,602,959 from the previous year due to starting of the two state bonding projects for rehabilitation of the rail.

	<b>Capital Assets at Year-End (Net of Depreciation)</b>		
	2015	2014	2013
Capital assets not depreciated			
Land	\$ 591,000	\$ 591,000	\$ 591,000
Capital assets depreciated			
Land improvements	\$ 29,925,890	\$ 28,322,931	\$ 28,322,931
Buildings	63,000	63,000	63,000
Machinery and equipment	-	-	4,000
Total capital assets depreciated	\$ 29,988,890	\$ 28,385,931	\$ 28,389,931
Less: accumulated depreciation for			
Land improvements	\$ 5,741,795	\$ 4,993,648	\$ 4,285,575
Buildings	47,250	44,100	40,950
Machinery and equipment	-	-	4,000
Total accumulated depreciation	\$ 5,789,045	\$ 5,037,748	\$ 4,330,525
Net capital assets depreciated	\$ 24,199,845	\$ 23,348,183	\$ 24,059,406
Net Capital Assets	\$ 24,790,845	\$ 23,939,183	\$ 24,650,406

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 2014 and 2015, the Authority had total outstanding debt of \$4,455,489 and \$4,298,889, respectively. Other liabilities and contingencies are described in the notes to the financial statements.

<b>Outstanding Debt</b>			
	2015	2014	2013
State loan	\$ 4,258,889	\$ 4,375,489	\$ 4,489,279
Operator loan	40,000	80,000	120,000
Total	\$ 4,298,889	\$ 4,455,489	\$ 4,609,279

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 provided 80 percent of the rehabilitation costs, or \$4,800,000; the shippers provided ten percent, or \$600,000; and the Authority provided ten percent, or \$600,000, which the operator provided in the form of in-kind work. Repayment to the operator are 15 annual payments of \$40,000 each to be funded from the Authority’s annual Verizon payment. The state loan will be paid from the Authority’s rail car rents as received from the operator.

### ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS

For 2015, we completed work on Bond Agreement #06800, which was for the Arlington Bridge, with a total cost of \$629,920. We also completed work on Bond Agreement #07375, which was for three bridge replacements, including culverts, for a total cost of \$973,039.

Going forward in 2016, we will be doing four more additional bridge replacements, including culverts, which will be funded by Bond Agreement #1003245, for a total project cost of \$1,359,400. This will be funded with the balance remaining of \$372,248 from the 2009 appropriation and \$1,000,000 for the 2015 appropriation. 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. If a legislative special session is called before the end of 2016, we are in the Bonding Bill for another \$4 million for rail rehabilitation.

### 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, 2014**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Governmental Activities</b>
<b><u>Assets</u></b>			
Current assets			
Cash and pooled investments	\$ 329,448	\$ -	\$ 329,448
Accounts receivable	47,490	-	47,490
Due from other governments	115,304	-	115,304
Capital assets			
Non-depreciable	-	591,000	591,000
Depreciable - net	-	23,348,183	23,348,183
<b>Total Assets</b>	<b>\$ 492,242</b>	<b>\$ 23,939,183</b>	<b>\$ 24,431,425</b>
 <b><u>Liabilities and Fund Balance/Net Position</u></b>			
<b>Liabilities</b>			
Current liabilities			
Accounts payable	\$ 105,529	\$ -	\$ 105,529
Due to other governments	47,490	-	47,490
Long-term liabilities			
Due within one year	-	145,980	145,980
Due in more than one year	-	4,309,509	4,309,509
<b>Total Liabilities</b>	<b>\$ 153,019</b>	<b>\$ 4,455,489</b>	<b>\$ 4,608,508</b>
<b>Fund Balance</b>			
Unassigned	339,223	(339,223)	
<b>Net Position</b>			
Net investment in capital assets		\$ 19,483,694	\$ 19,483,694
Unrestricted		339,223	339,223
<b>Total Net Position</b>		<b>\$ 19,822,917</b>	<b>\$ 19,822,917</b>
<b>Total Liabilities and Fund Balance/Net Position</b>	<b>\$ 492,242</b>	<b>\$ 23,939,183</b>	<b>\$ 24,431,425</b>
 <b>Reconciliation of the General Fund Balance to Net Position</b>			
Fund Balance - General Fund			\$ 339,223
Capital assets are reported on the Statement of Net Position but not on the General Fund Balance Sheet.			23,939,183
Long-term liabilities are reported on the Statement of Net Position but not on the General Fund Balance Sheet.			(4,455,489)
<b>Net Position - Governmental Activities</b>			<b>\$ 19,822,917</b>

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

**EXHIBIT 2**

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Governmental Activities</b>
<b>Revenues</b>			
Licenses and permits	\$ 147,805	\$ (17,013)	\$ 130,792
Intergovernmental	136,675	-	136,675
Charges for services	113,790	-	113,790
Investment earnings	1,419	-	1,419
Miscellaneous	31,335	-	31,335
<b>Total Revenues</b>	<b>\$ 431,024</b>	<b>\$ (17,013)</b>	<b>\$ 414,011</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
<b>Economic development</b>			
Administration	\$ 49,657	\$ -	\$ 49,657
Rehabilitation	69,677	711,223	780,900
Transportation	255	-	255
Repairs and maintenance	114,799	-	114,799
<b>Debt service</b>			
Principal	153,790	(153,790)	-
<b>Total Expenditures/Expenses</b>	<b>\$ 388,178</b>	<b>\$ 557,433</b>	<b>\$ 945,611</b>
<b>Net Change in Fund Balance/Net Position</b>	<b>\$ 42,846</b>	<b>\$ (574,446)</b>	<b>\$ (531,600)</b>
<b>Fund Balance/Net Position - January 1</b>	<b>296,377</b>	<b>20,058,140</b>	<b>20,354,517</b>
<b>Fund Balance/Net Position - December 31</b>	<b>\$ 339,223</b>	<b>\$ 19,483,694</b>	<b>\$ 19,822,917</b>

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

Net Change in Fund Balance \$ 42,846

In the General Fund, 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 - January 1 (17,013)

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.

Current year depreciation (711,223)

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.

153,790

**Change in Net Position of Governmental Activities** **\$ (531,600)**

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

*EXHIBIT 3*

**GENERAL FUND BALANCE SHEET AND  
GOVERNMENTAL ACTIVITIES - STATEMENT OF NET POSITION  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
DECEMBER 31, 2015**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Governmental Activities</b>
<b><u>Assets</u></b>			
Current assets			
Cash and pooled investments	\$ 475,191	\$ -	\$ 475,191
Accounts receivable	61,281	-	61,281
Due from other governments	230,153	-	230,153
Prepaid items	3,000	-	3,000
Capital assets			
Non-depreciable	-	591,000	591,000
Depreciable - net	-	24,199,845	24,199,845
<b>Total Assets</b>	<b>\$ 769,625</b>	<b>\$ 24,790,845</b>	<b>\$ 25,560,470</b>
 <b><u>Liabilities and Fund Balance/Net Position</u></b>			
<b>Liabilities</b>			
Current liabilities			
Accounts payable	\$ 11,535	\$ -	\$ 11,535
Contracts payable	414,953	-	414,953
Due to other governments	37,880	-	37,880
Long-term liabilities			
Due within one year	-	149,927	149,927
Due in more than one year	-	4,148,962	4,148,962
<b>Total Liabilities</b>	<b>\$ 464,368</b>	<b>\$ 4,298,889</b>	<b>\$ 4,763,257</b>
<b>Fund Balance</b>			
Nonspendable			
Prepaid items	\$ 3,000	\$ (3,000)	
Unassigned	302,257	(302,257)	
<b>Total Fund Balance</b>	<b>\$ 305,257</b>	<b>\$ (305,257)</b>	
<b>Net Position</b>			
Net investment in capital assets		\$ 20,491,956	\$ 20,491,956
Unrestricted		305,257	305,257
<b>Total Net Position</b>		<b>\$ 20,797,213</b>	<b>\$ 20,797,213</b>
<b>Total Liabilities and Fund Balance/Net Position</b>	<b>\$ 769,625</b>	<b>\$ 24,790,845</b>	<b>\$ 25,560,470</b>
 <b>Reconciliation of the General Fund Balance to Net Position</b>			
Fund Balance - General Fund			\$ 305,257
Capital assets are reported on the Statement of Net Position but not on the General Fund Balance Sheet.			24,790,845
Long-term liabilities are reported on the Statement of Net Position but not on the General Fund Balance Sheet.			(4,298,889)
<b>Net Position - Governmental Activities</b>			<b>\$ 20,797,213</b>

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

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

*EXHIBIT 4*

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
AND GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES  
WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Governmental Activities</b>
<b>Revenues</b>			
Licenses and permits	\$ 150,590	\$ -	\$ 150,590
Intergovernmental	1,341,927	-	1,341,927
Charges for services	117,600	-	117,600
Investment earnings	1,432	-	1,432
Miscellaneous	215,372	-	215,372
<b>Total Revenues</b>	<b>\$ 1,826,921</b>	<b>\$ -</b>	<b>\$ 1,826,921</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
<b>Economic development</b>			
Administration	\$ 107,215	\$ -	\$ 107,215
Rehabilitation	1,596,817	(851,662)	745,155
Transportation	255	-	255
<b>Debt service</b>			
Principal	156,600	(156,600)	-
<b>Total Expenditures/Expenses</b>	<b>\$ 1,860,887</b>	<b>\$ (1,008,262)</b>	<b>\$ 852,625</b>
<b>Net Change in Fund Balance/Net Position</b>	<b>\$ (33,966)</b>	<b>\$ 1,008,262</b>	<b>\$ 974,296</b>
<b>Fund Balance/Net Position - January 1</b>	<b>339,223</b>	<b>19,483,694</b>	<b>19,822,917</b>
<b>Fund Balance/Net Position - December 31</b>	<b>\$ 305,257</b>	<b>\$ 20,491,956</b>	<b>\$ 20,797,213</b>

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

Net Change in Fund Balance \$ (33,966)

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	\$ 1,602,959	
Current year depreciation	(751,297)	851,662

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.

156,600

**Change in Net Position of Governmental Activities \$ 974,296**

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

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2015**

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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 years ended December 31, 2014 and 2015. 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.

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

1. 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, 2, 3, and 4. Each of the exhibits starts with a column of information based on activities of the General Fund and reconciles it to a column that reports the "governmental activities" of the Authority as a whole.

The governmental activities columns are reported on the full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Authority's net position is reported in three parts: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. The Statement of Activities demonstrates the degree to which the expenses of the Authority are offset by revenues.

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

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1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

2. Fund Financial Statements

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 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.



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

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1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

Deposits and investments are reported at their fair value at December 31, 2014 and 2015, based on market price.

2. Receivables

No allowance for uncollectible receivables has been provided because such amounts are not expected to be material.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital Assets

Capital assets, which include property and equipment and infrastructure assets, are reported in the government-wide financial statements. Capital assets are defined by the Authority as assets with an initial cost of more than \$5,000 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.

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

<u>Assets</u>	<u>Years</u>
Land improvements	40
Buildings	25
Machinery and equipment	5

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

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position 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 Position reports long-term liabilities of the governmental activities.

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 Balance

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.

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

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity

7. Classification of Fund Balance (Continued)

- 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.
- 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.

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

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1. Summary of Significant Accounting Policies

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

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. Detailed Notes

A. Assets

1. Deposits and Investments

The following table presents the Authority's cash and deposit balances at December 31, 2014 and 2015:

	<u>2014</u>	<u>2015</u>
Checking	\$ 160,960	\$ 305,324
Savings	53	-
Certificates of deposit	<u>168,435</u>	<u>169,867</u>
Total Cash and Investments	<u>\$ 329,448</u>	<u>\$ 475,191</u>

During the years ended December 31, 2014 and 2015, 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.

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

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2. 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, 2014 and 2015, 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;

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

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2. 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.

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

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2. 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, 2014 and 2015, 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 and Revenue

Receivables for the Authority were as follows:

	<u>December 31, 2014</u>	<u>December 31, 2015</u>
Accounts receivable	\$ 47,490	\$ 61,281
Due from other governments	<u>115,304</u>	<u>230,153</u>
Total	<u>\$ 162,794</u>	<u>\$ 291,434</u>

All amounts are expected to be collected in the subsequent year.

As of January 1, 2014, the Authority contracted with Omega Rail Management, Inc., for billing and collections of licenses, permits, and rights of way. For this service Omega Rail Management earns a commission on amounts collected, in accordance with the agreement with the vendor.

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

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2. Detailed Notes

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 591,000	\$ -	\$ -	\$ 591,000
Capital assets depreciated				
Land improvements	\$ 28,322,931	\$ -	\$ -	\$ 28,322,931
Buildings	63,000	-	-	63,000
Machinery and equipment	4,000	-	4,000	-
Total capital assets depreciated	\$ 28,389,931	\$ -	\$ 4,000	\$ 28,385,931
Less: accumulated depreciation for				
Land improvements	\$ 4,285,575	\$ 708,073	\$ -	\$ 4,993,648
Buildings	40,950	3,150	-	44,100
Machinery and equipment	4,000	-	4,000	-
Total accumulated depreciation	\$ 4,330,525	\$ 711,223	\$ 4,000	\$ 5,037,748
Total capital assets depreciated, net	\$ 24,059,406	\$ (711,223)	\$ -	\$ 23,348,183
Net Capital Assets	\$ 24,650,406	\$ (711,223)	\$ -	\$ 23,939,183

Depreciation expense of \$711,223 was charged to the Authority's economic development function for the year ended December 31, 2014.



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

2. Detailed Notes

A. Assets

3. Capital Assets (Continued)

Capital asset activity for the year ended December 31, 2015, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 591,000	\$ -	\$ -	\$ 591,000
Capital assets depreciated				
Land improvements	\$ 28,322,931	\$ 1,602,959	\$ -	\$ 29,925,890
Buildings	63,000	-	-	63,000
Total capital assets depreciated	\$ 28,385,931	\$ 1,602,959	\$ -	\$ 29,988,890
Less: accumulated depreciation for				
Land improvements	\$ 4,993,648	\$ 748,147	\$ -	\$ 5,741,795
Buildings	44,100	3,150	-	47,250
Total accumulated depreciation	\$ 5,037,748	\$ 751,297	\$ -	\$ 5,789,045
Total capital assets depreciated, net	\$ 23,348,183	\$ 851,662	\$ -	\$ 24,199,845
Net Capital Assets	\$ 23,939,183	\$ 851,662	\$ -	\$ 24,790,845

Depreciation expense of \$751,297 was charged to the Authority's economic development function for the year ended December 31, 2015.

B. Liabilities

1. Payables

Payables for the Authority were as follows:

	December 31, 2014	December 31, 2015
Accounts payable	\$ 105,529	\$ 11,535
Contracts payable	-	414,953
Due to other governments	47,490	37,880
Total	\$ 153,019	\$ 464,368

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

2. Detailed Notes

B. Liabilities (Continued)

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
State loan	\$ 4,489,279	\$ -	\$ 113,790	\$ 4,375,489	\$ 105,980
Operator loan	120,000	-	40,000	80,000	40,000
Total	<u>\$ 4,609,279</u>	<u>\$ -</u>	<u>\$ 153,790</u>	<u>\$ 4,455,489</u>	<u>\$ 145,980</u>

Long-term liability activity for the year ended December 31, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
State loan	\$ 4,375,489	\$ -	\$ 116,600	\$ 4,258,889	\$ 109,927
Operator loan	80,000	-	40,000	40,000	40,000
Total	<u>\$ 4,455,489</u>	<u>\$ -</u>	<u>\$ 156,600</u>	<u>\$ 4,298,889</u>	<u>\$ 149,927</u>

In 2002, the Authority received two interest-free rehabilitation loans under Minn. Stat. § 222.50 to provide assistance for improvement of rail service in the state. The state provided 80 percent of the rehabilitation costs or \$4,800,000; the shippers provided 10 percent or \$600,000; and the Authority provided 10 percent or \$600,000, which the operator provided in the form of in-kind work. Both of these loans are secured by mortgages on the Authority's rail line.

The operator loan repayments began in 2002 for \$40,000 annually for 15 years. The payments are funded from the Authority's annual Verizon payment.

The state loan payments are equal to the rail car rental revenue generated on the rail received from the operator, Minnesota Prairie Line. The rail car rental revenue payments vary, so the amount due within one year is an estimate, as the exact amount cannot be determined.

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

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2. Detailed Notes

B. Liabilities

2. Changes in Long-Term Liabilities (Continued)

Annual debt service requirements to maturity for the operator loan as of December 31, 2014 and 2015, are:

<u>Year Ended</u>	<u>Principal</u>
2015	\$ 40,000
2016	40,000
Total	<u>\$ 80,000</u>

3. 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 for which the Authority carries commercial insurance. To manage these risks, the Authority has entered into a joint powers agreement with Minnesota counties to form 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 is a member of only the Property and Casualty Division. For all other risk, the Authority carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for any of the past three fiscal years.

The Property and Casualty Division of MCIT is self-sustaining, and the Authority pays an annual premium to cover current and future losses. MCIT carries reinsurance for its property lines to protect against catastrophic losses. Should the MCIT Property and Casualty Division liabilities exceed assets, MCIT may assess the Authority in a method and amount to be determined by MCIT.

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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, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Licenses and permits	\$ 136,564	\$ 136,564	\$ 147,805	\$ 11,241
Intergovernmental	-	-	136,675	136,675
Charges for services	100,000	100,000	113,790	13,790
Investment earnings	-	-	1,419	1,419
Miscellaneous	4,206	4,206	31,335	27,129
<b>Total Revenues</b>	<b>\$ 240,770</b>	<b>\$ 240,770</b>	<b>\$ 431,024</b>	<b>\$ 190,254</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Economic development</b>				
Administration	\$ 51,562	\$ 51,562	\$ 49,657	\$ 1,905
Rehabilitation	22,000	22,000	69,677	(47,677)
Transportation	250	250	255	(5)
Repairs and maintenance	-	-	114,799	(114,799)
<b>Debt service</b>				
Principal	140,000	140,000	153,790	(13,790)
<b>Total Expenditures</b>	<b>\$ 213,812</b>	<b>\$ 213,812</b>	<b>\$ 388,178</b>	<b>\$ (174,366)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 26,958</b>	<b>\$ 26,958</b>	<b>\$ 42,846</b>	<b>\$ 15,888</b>
<b>Fund Balance - January 1</b>	<b>296,377</b>	<b>296,377</b>	<b>296,377</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 323,335</b>	<b>\$ 323,335</b>	<b>\$ 339,223</b>	<b>\$ 15,888</b>

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

*EXHIBIT A-2*

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Licenses and permits	\$ 140,000	\$ 140,000	\$ 150,590	\$ 10,590
Intergovernmental	-	-	1,341,927	1,341,927
Charges for services	100,000	100,000	117,600	17,600
Investment earnings	700	700	1,432	732
Miscellaneous	1,200	1,200	215,372	214,172
<b>Total Revenues</b>	<b>\$ 241,900</b>	<b>\$ 241,900</b>	<b>\$ 1,826,921</b>	<b>\$ 1,585,021</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Economic development</b>				
Administration	\$ 65,722	\$ 65,722	\$ 107,215	\$ (41,493)
Rehabilitation	25,000	25,000	1,596,817	(1,571,817)
Transportation	250	250	255	(5)
<b>Debt service</b>				
Principal	140,000	140,000	156,600	(16,600)
<b>Total Expenditures</b>	<b>\$ 230,972</b>	<b>\$ 230,972</b>	<b>\$ 1,860,887</b>	<b>\$ (1,629,915)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 10,928</b>	<b>\$ 10,928</b>	<b>\$ (33,966)</b>	<b>\$ (44,894)</b>
<b>Fund Balance - January 1</b>	<b>339,223</b>	<b>339,223</b>	<b>339,223</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 350,151</b>	<b>\$ 350,151</b>	<b>\$ 305,257</b>	<b>\$ (44,894)</b>



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

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2015**

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1. General Budget Policies

The Minnesota Valley Regional Rail Authority's Board adopts an estimated revenue and expenditure budget for the General Fund.

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

Over the course of the year, the Authority Board may revise estimated revenue and expenditure budgets. These budget amendments fall into three categories: new information changing original budget estimations, greater than anticipated revenues or costs, and new grant awards.

The Authority did not amend any of its revenue and expenditure budgets during 2014 or 2015.

4. Excess of Expenditures Over Budget

For the year ended December 31, 2014, expenditures of \$388,178 exceeded the budgeted appropriations of \$213,812 by \$174,366 in the General Fund.

For the year ended December 31, 2015, expenditures of \$1,860,887 exceeded the budgeted appropriations of \$230,972 by \$1,629,915 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, 2014**

**Grants**

**State**

Minnesota Department of Public Safety	\$ 26,492
Transportation	<u>21,876</u>
<b>Total state</b>	<b>\$ 48,368</b>

**Federal**

Department of Homeland Security	<u>88,307</u>
<b>Total Intergovernmental Revenue</b>	<b><u><u>\$ 136,675</u></u></b>

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

*EXHIBIT B-2*

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**Grants**

**State**

Minnesota Department of Transportation

**\$ 1,341,927**



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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2015**

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

**PREVIOUSLY REPORTED ITEM NOT RESOLVED**

Finding 2000-001

**Segregation of Duties**

**Criteria:** Management is responsible for establishing and maintaining internal control. Adequate segregation of duties is a key internal control in preventing and detecting errors or irregularities. To protect the Minnesota Valley Regional Rail Authority's assets, proper segregation of the record-keeping, custody, and authorization functions should be in place, and where management decides segregation of duties may not be cost effective, compensating controls should be in place.

**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 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:

*MVRRRA since 2014 has contracted with Omega Rail Management which now does all the client billing, collections, and ACH deposits right into the Authority's checking account. On occasion a payment is made directly to our office, and the Administrator will deposit the check. The DOT transfers are all wire transferred right to the Authority's account as well. The Treasurer reviews the monthly bank reconciliation at the Board meeting and signs checks following Board approval at the meeting.*

ITEMS ARISING THIS YEAR

Finding 2015-001

Audit Adjustments

**Criteria:** 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 of the financial statements on a timely basis. Auditing standards define 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

**Condition:** During our audit, we proposed audit adjustments that resulted in significant changes to the Authority's financial statements. One of the adjustments was material to the General Fund.

**Context:** The inability to make all necessary accrual adjustments or to detect misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. These adjustments were found in the audit; however, independent external auditors cannot be considered part of the Authority's internal control. Some of the adjustments required additional time by the auditors to determine the correct balances.

**Effect:** The following audit adjustment was reviewed and approved by management and is reflected in the financial statements:

- Contracts payable and rehabilitation expenditures in the General Fund were increased by \$194,146 to record additional contracts payable related to state bonding rehabilitation work on the rail line completed during 2015.

**Cause:** Procedures are not in place to consider the full extent of all entries needed for financial reporting, and the Authority's staff did not consider controls over calculating the proper amounts of balances and recording certain accounting transactions.

**Recommendation:** We recommend the Authority's staff review the financial statement closing procedures and the trial balances and journal entries in detail to ensure that all significant adjustments have been made that are considered necessary to fairly present the Authority's financial statements in accordance with generally accepted accounting principles. We also recommend that the Authority modify internal controls over financial reporting to detect misstatements in the financial statements.

Client's Response:

*Some of these changes occurred when the final invoices against the bond agreement were closed out and processed in the following calendar year. The Administrator reported on the full bond agreement, not by calendar year.*

Finding 2015-002

Service Organization Control Report

**Criteria:** Statement on Standards for Attestation Engagements (SSAE) No. 16 requires service organization control reports for organizations that provide services to user entities when those controls are relevant to the entities' internal controls over financial reporting.

**Condition:** Omega Rail Management, Inc., bills and collects licenses, permits, and rights of way fees for the Minnesota Valley Regional Rail Authority, resulting in a service organization relationship. Omega Rail Management did not receive a service organization control report for 2014 or 2015.

**Context:** Omega Rail Management started billing and collections of licenses, permits, and rights of way fees for the Authority in January 2014. Revenues collected and received by the Authority were \$147,805 for 2014 and \$150,590 for 2015.

**Effect:** The Authority has no assurance that Omega Rail Management, the service organization, has adequate controls in place over billing and collections of licenses, permits, and rights of way fees.

**Cause:** Neither the Authority nor Omega Rail Management were aware that a service organization control report was required in accordance with SSAE No. 16.

**Recommendation:** We recommend the Authority work with Omega Rail Management to obtain a service organization control report. A Type 2 engagement, in which the service auditor reports on the fairness of the presentation of management’s description of the service organization’s system and the suitability of the design and operating effectiveness of the controls to achieve the related control objectives included in the description throughout a specified period, is recommended over a Type 1 engagement, as a Type 1 engagement is only as of a specific date.

Client’s Response:

*The Administrator will contact Omega Rail Management for a service organization control report to be provided to the MVRRA each calendar year.*

PREVIOUSLY REPORTED ITEMS RESOLVED

**Capital Assets Policies and Procedures (2007-002)**

The Authority did not have an adopted capital assets policy defining the Authority’s accounting policies over capital assets, such as capitalization thresholds, useful lives, and depreciation methods.

**Resolution**

The Authority included a capital assets policy in the accounting policies and procedures manual approved in October 2014.

**Documenting and Monitoring Internal Controls (2010-002)**

The Authority had not documented significant internal controls and accounting systems in place. The Authority did not have a current and comprehensive accounting policies and procedures manual.

**Resolution**

The Authority approved a comprehensive accounting policies and procedures manual in October 2014 documenting its significant internal controls and accounting systems in place.



REBECCA OTTO  
STATE AUDITOR

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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 years ended December 31, 2014 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 28, 2016.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the Minnesota Valley Regional Rail Authority's basic 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiency listed in the Schedule of Findings and Recommendations as item 2015-001 to be a material weakness.

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. We consider the deficiencies in the Authority's internal control, identified as items 2000-001 and 2015-002 in the Schedule of Findings and Recommendations, to be significant deficiencies.

### **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.

This communication is intended solely for the information and use of the Board Members, management, 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  
STATE AUDITOR

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 28, 2016



REBECCA OTTO  
STATE AUDITOR

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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 years ended December 31, 2014 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated September 28, 2016.

The *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for tax increment financing because the Minnesota Valley Regional Rail Authority has no tax increment financing.

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 Other 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 the Board Members 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

September 28, 2016

/s/Greg Hierlinger

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR