

STATE OF MINNESOTA

Office of the State Auditor



Julie Blaha
State Auditor

MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA

YEARS ENDED DECEMBER 31, 2016 AND 2017

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 650 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, 2016 and 2017



**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
2016**

<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
Laurence Stratton	Legal Counsel	Appointed Yearly

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

ORGANIZATION
2017

<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
Laurence Stratton	Legal Counsel	Appointed Yearly

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JULIE BLAHA
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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, 2016 and 2017, and the related notes to the financial statements, which collectively comprise the Rail 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 Rail 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 Rail 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, 2016 and 2017, 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/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

February 7, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016 AND 2017
(Unaudited)**

The Minnesota Valley Regional Rail Authority's Management's Discussion and Analysis (MD&A) provides an overview of the Rail Authority's financial activities for the fiscal years ended December 31, 2016 and 2017. 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 Rail Authority's basic financial statements that follow this section.

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 Rail 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 Rail Authority is organized with a chair, a vice chair, and a secretary/treasurer.

FINANCIAL HIGHLIGHTS

- In 2016, the assets of the Rail Authority exceed its liabilities by \$21,006,677 (net position), of which \$20,313,230 is the net investment in capital assets (Exhibit 1), leaving unrestricted net position of \$693,447.
- In 2017, the assets of the Rail Authority exceeded its liabilities by \$26,296,806 (net position), of which \$25,719,867 is the net investment in capital assets (Exhibit 3), leaving unrestricted net position of \$576,939.
- The Rail Authority's total net position increased \$209,464, or 1.01 percent, in 2016. The Rail Authority's total net position increased \$5,290,129, or 25.18 percent, in 2017.

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 Rail 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 Rail 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 Rail Authority as a whole and present a longer-term view of the Rail Authority's finances. These columns include all assets and liabilities using the full 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 Rail Authority's net position are one indicator of whether the financial health of the Rail 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 16 through 29 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 2015, 2016 revenues for the Rail Authority's General Fund decreased by \$1,049,123 and expenditures decreased by \$1,448,782, primarily due to minimal work completed during 2016 on rehabilitation projects. As compared to 2016, 2017 revenues for the Rail Authority's General Fund increased by \$1,149,564 and expenditures increased \$1,717,993, due to the beginning of a large rehabilitation project funded by state bonding money in 2017.

The General Fund balance increased by \$365,693 from 2015 to 2016, for a total unassigned fund balance of \$670,950 as of December 31, 2016. The General Fund balance decreased by \$202,736 from 2016 to 2017, for a total unassigned fund balance of \$468,214.

The Minnesota Valley Regional Rail Authority adopts an annually appropriated budget for its General Fund. A budgetary comparison schedule for 2016 and for 2017 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 Rail Authority's financial position. The Minnesota Valley Regional Rail Authority's assets exceeded liabilities by \$21,006,677 at the close of 2016, and by \$26,296,806 at the close of 2017. The largest portion of the Rail Authority's net position reflects the Rail 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. Comparative data with 2015 is presented.

	Net Position		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets			
Current and other assets	\$ 592,709	\$ 770,948	\$ 769,625
Capital assets	<u>25,816,177</u>	<u>24,465,636</u>	<u>24,790,845</u>
Total Assets	<u>\$ 26,408,886</u>	<u>\$ 25,236,584</u>	<u>\$ 25,560,470</u>
Liabilities			
Long-term liabilities	\$ -	\$ 4,129,909	\$ 4,298,889
Other liabilities	<u>112,080</u>	<u>99,998</u>	<u>464,368</u>
Total Liabilities	<u>\$ 112,080</u>	<u>\$ 4,229,907</u>	<u>\$ 4,763,257</u>
Net Position			
Net investment in capital assets	\$ 25,719,867	\$ 20,313,230	\$ 20,491,956
Unrestricted	<u>576,939</u>	<u>693,447</u>	<u>305,257</u>
Total Net Position	<u>\$ 26,296,806</u>	<u>\$ 21,006,677</u>	<u>\$ 20,797,213</u>

Governmental Activities

The Minnesota Valley Regional Rail Authority's activities increased the Rail Authority's net position during 2016 by \$209,464, representing a 1.01 percent increase, and increased net position during 2017 by \$5,290,129, representing a 25.18 percent increase, primarily because of change in the Rail Authority's state bonding funds for rehabilitation of the rail, and due to the \$4,107,574 Minnesota Department of Transportation loan conversion to a grant in 2017. Key elements in this decrease and increase in net position are as follows:

Changes in Net Position

	2017	2016	2015
Revenues			
Program revenues			
Charges for services	\$ 122,235	\$ 127,980	\$ 117,600
Licenses and permits	182,689	196,269	150,590
Intergovernmental	1,459,627	200,810	1,341,927
General revenues			
Interest earnings	2,808	1,449	1,432
Miscellaneous	172,418	251,290	215,372
	\$ 1,939,777	\$ 777,798	\$ 1,826,921
Total Revenues			
Expenses			
Program expenses			
Economic development	757,222	568,334	852,625
	\$ 1,182,555	\$ 209,464	\$ 974,296
Change in Net Position Before Special Item			
Special Item (Note 1.E.)			
Minnesota Department of Transportation loan conversion to grant	4,107,574	-	-
	\$ 5,290,129	\$ 209,464	\$ 974,296
Change in Net Position			
Net Position - January 1	21,006,677	20,797,213	19,822,917
Net Position - December 31	\$ 26,296,806	\$ 21,006,677	\$ 20,797,213

General Fund Budgetary Highlights

There were no differences between the original General Fund expenditure budget and the final budget in 2016 and 2017.

Actual General Fund 2016 revenues exceeded budgeted revenues by \$422,598, primarily due to more pass-through intergovernmental revenues recognized than anticipated and additional car storage rental income. Actual General Fund 2017 revenues exceeded budgeted revenues by \$1,569,462, primarily due to more pass-through intergovernmental revenues recognized than anticipated and additional car storage rental income.

Actual 2016 expenditures exceeded budgeted expenditures by \$134,489. The more-than-expected expenditures reflect more-than-anticipated rehabilitation costs in preparing for the 2017 state bonding rehabilitation project. Actual 2017 expenditures exceeded budgeted expenditures by \$1,387,596. The more-than-expected expenditures reflect more-than-anticipated rehabilitation costs for the state bonding rehabilitation project.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Minnesota Valley Regional Rail Authority's depreciable capital assets (net of accumulated depreciation) at December 31, 2016 and 2017, totaled \$23,811,479 and \$25,143,617, respectively. This investment in capital assets includes land improvements and a building. The Rail Authority's 2017 investment in land improvements increased \$1,745,438 from the previous year due to starting the state bonding project for rehabilitation of the rail.

	Capital Assets at Year-End (Net of Depreciation)		
	2017	2016	2015
Capital assets not depreciated			
Land	\$ 591,000	\$ 591,000	\$ 591,000
Construction in progress	81,560	63,157	-
Total capital assets not depreciated	\$ 672,560	\$ 654,157	\$ 591,000
Capital assets depreciated			
Land improvements - infrastructure	\$ 31,671,328	\$ 29,925,890	\$ 29,925,890
Buildings	63,000	63,000	63,000
Total capital assets depreciated	\$ 31,734,328	\$ 29,988,890	\$ 29,988,890
Less: accumulated depreciation for			
Land improvements - infrastructure	\$ 6,537,161	\$ 6,127,011	\$ 5,741,795
Buildings	53,550	50,400	47,250
Total accumulated depreciation	\$ 6,590,711	\$ 6,177,411	\$ 5,789,045
Total capital assets depreciated, net	\$ 25,143,617	\$ 23,811,479	\$ 24,199,845
Net Capital Assets	\$ 25,816,177	\$ 24,465,636	\$ 24,790,845

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

Long-Term Debt

At the end of 2016, the Rail Authority had total outstanding debt of \$4,129,909 and no outstanding debt at the end of 2017. Other liabilities and contingencies are described in the notes to the financial statements.

Outstanding Debt

	<u>2017</u>	<u>2016</u>	<u>2015</u>
State loan	\$ -	\$ 4,129,909	\$ 4,258,889
Operator loan	-	-	40,000
Total	<u>\$ -</u>	<u>\$ 4,129,909</u>	<u>\$ 4,298,889</u>

The Rail Authority received interest-free rehabilitation loans under Minn. Stat. § 222.50 to provide assistance for improvement of rail service in the state. During 2016, the Rail Authority made the final principal payment on the operator loan. As a result of the 2017 legislative session, the remaining \$4,107,574 balance on the state loan was converted to a grant.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In August 2018, we started a rail relay project covered by Bond Agreement #1030610 from Winthrop to Gibbon, mile point 81.4 to 88.25. This \$4 million project includes additional amendments to change the original mile point on the west end from mile point 86.9 to 88.25, adding the additional rail to cover that distance.

The Rail Authority was awarded \$1 million at the end of the 2018 legislative session. In 2019, these funds will be used for new tie replacements, ballast, and turnouts between Gibbon and Fairfax.

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; or call 507-637-4084.

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
DECEMBER 31, 2016**

	General Fund	Reconciliation	Governmental Activities
<u>Assets</u>			
Current assets			
Cash and cash equivalents	\$ 705,435	\$ -	\$ 705,435
Accounts receivable	65,513	-	65,513
Capital assets			
Non-depreciable	-	654,157	654,157
Depreciable - net	-	23,811,479	23,811,479
Total Assets	\$ 770,948	\$ 24,465,636	\$ 25,236,584
 <u>Liabilities and Fund Balance/Net Position</u>			
Liabilities			
Current liabilities			
Accounts payable	\$ 9,933	\$ -	\$ 9,933
Contracts payable	22,497	-	22,497
Due to other governments	44,820	-	44,820
Unearned revenue	22,748	-	22,748
Long-term liabilities			
Due within one year	-	119,790	119,790
Due in more than one year	-	4,010,119	4,010,119
Total Liabilities	\$ 99,998	\$ 4,129,909	\$ 4,229,907
Fund Balance			
Unassigned	670,950	(670,950)	
Net Position			
Net investment in capital assets		\$ 20,313,230	\$ 20,313,230
Unrestricted		693,447	693,447
Total Net Position		\$ 21,006,677	\$ 21,006,677
Total Liabilities and Fund Balance/Net Position	\$ 770,948	\$ 24,465,636	\$ 25,236,584

Reconciliation of the General Fund Balance to Net Position

Fund Balance - General Fund	\$ 670,950
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are reported on the Statement of Net Position but not on the General Fund Balance Sheet.	24,465,636
Long-term liabilities are not due and payable in the current period and, therefore, are reported on the Statement of Net Position but not on the General Fund Balance Sheet.	(4,129,909)
Net Position - Governmental Activities	\$ 21,006,677

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

EXHIBIT 2

**GENERAL FUND REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
AND GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	General Fund	Reconciliation	Governmental Activities
Revenues			
Licenses and permits	\$ 196,269	\$ -	\$ 196,269
Intergovernmental	200,810	-	200,810
Charges for services	127,980	-	127,980
Investment earnings	1,449	-	1,449
Miscellaneous	251,290	-	251,290
Total Revenues	\$ 777,798	\$ -	\$ 777,798
Expenditures/Expenses			
Current			
Economic development			
Administration	\$ 143,324	\$ -	\$ 143,324
Rehabilitation	61,714	325,209	386,923
Repairs and maintenance	38,087	-	38,087
Debt service			
Principal	168,980	(168,980)	-
Total Expenditures/Expenses	\$ 412,105	\$ 156,229	\$ 568,334
Net Change in Fund Balance/Net Position	\$ 365,693	\$ (156,229)	\$ 209,464
Fund Balance/Net Position - January 1	305,257	20,491,956	20,797,213
Fund Balance/Net Position - December 31	\$ 670,950	\$ 20,335,727	\$ 21,006,677

Reconciliation of the General Fund's Revenues, Expenditures, and Change in Fund Balance to the Statement of Activities

Change in Fund Balance **\$ 365,693**

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.

Expenditures for capital assets	63,157
Current year depreciation	(388,366)

Incurring long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes current financial resources. Neither transaction, however, has any effect on net position. The adjustment is the payments on debt.

Change in Net Position of Governmental Activities	\$ 209,464
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**MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 3

**GENERAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION
DECEMBER 31, 2017**

	General Fund	Reconciliation	Governmental Activities
<u>Assets</u>			
Current assets			
Cash and cash equivalents	\$ 393,673	\$ -	\$ 393,673
Accounts receivable	75,576	-	75,576
Due from other governments	123,460	-	123,460
Capital assets			
Non-depreciable	-	672,560	672,560
Depreciable - net	-	25,143,617	25,143,617
Total Assets	\$ 592,709	\$ 25,816,177	\$ 26,408,886
<u>Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position</u>			
Liabilities			
Current liabilities			
Accounts payable	\$ 28,960	\$ -	\$ 28,960
Contracts payable	83,120	-	83,120
Total Liabilities	\$ 112,080	\$ -	\$ 112,080
Deferred Inflows of Resources			
Unavailable revenue	\$ 12,415	\$ (12,415)	
Fund Balance			
Unassigned	\$ 468,214	\$ (468,214)	
Net Position			
Net investment in capital assets		\$ 25,719,867	\$ 25,719,867
Unrestricted		576,939	576,939
Total Net Position		\$ 26,296,806	\$ 26,296,806
Total Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position	\$ 592,709	\$ 25,816,177	\$ 26,408,886

Reconciliation of the General Fund Balance to Net Position

Fund Balance - General Fund	\$ 468,214
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Long-term assets are not available to pay current period expenditures and, therefore, are reported as deferred inflows of resources--unavailable revenue on the General Fund Balance Sheet but not on the Statement of Net Position.	12,415
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Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are reported on the Statement of Net Position but not on the General Fund Balance Sheet.	25,816,177
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Net Position - Governmental Activities	\$ 26,296,806
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**MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA**

EXHIBIT 4

**GENERAL FUND REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
AND GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	General Fund	Reconciliation	Governmental Activities
Revenues			
Licenses and permits	\$ 182,689	\$ -	\$ 182,689
Intergovernmental	1,459,627	-	1,459,627
Charges for services	122,235	-	122,235
Investment earnings	2,808	-	2,808
Miscellaneous	160,003	12,415	172,418
	\$ 1,927,362	\$ 12,415	\$ 1,939,777
Expenditures/Expenses			
Current			
Economic development			
Administration	\$ 114,041	\$ -	\$ 114,041
Rehabilitation	1,774,643	(1,350,541)	424,102
Repairs and maintenance	219,079	-	219,079
Debt service			
Principal	22,335	(22,335)	-
	\$ 2,130,098	\$ (1,372,876)	\$ 757,222
Special Item (Note 1.E.)			
Minnesota Department of Transportation loan to grant conversion	\$ -	\$ 4,107,574	\$ 4,107,574
	\$ (202,736)	\$ 5,492,865	\$ 5,290,129
Net Change in Fund Balance/Net Position			
Fund Balance/Net Position - January 1	670,950	20,335,727	21,006,677
Fund Balance/Net Position - December 31	\$ 468,214	\$ 25,828,592	\$ 26,296,806

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

***EXHIBIT 4
(Continued)***

**GENERAL FUND REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
AND GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017**

**Reconciliation of the General Fund's Revenues, Expenditures, and Change
in Fund Balance to the Statement of Activities**

Change in Fund Balance	\$	(202,736)
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In the governmental 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 statement and the statement of activities is the increase or decrease in revenues deferred as unavailable.

Unavailable revenue - December 31		12,415
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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.

Expenditures for capital assets	\$	1,763,841	
Current year depreciation		<u>(413,300)</u>	1,350,541

Incurring long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes current financial resources. Neither transaction, however, has any effect on net position. The adjustment is the payments on debt.		22,335
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The loan balance outstanding with the Minnesota Department of Transportation was converted to a grant by the Minnesota Legislature in the 2017 Omnibus Transportation Bill.		<u>4,107,574</u>
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Change in Net Position of Governmental Activities	\$	<u>5,290,129</u>
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**MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017**

1. Summary of Significant Accounting Policies

The Minnesota Valley Regional Rail Authority's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the years ended December 31, 2016 and 2017. 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 Rail Authority is organized with a chair, a vice chair, and a secretary/treasurer.

B. Basic Financial Statements

Basic financial statements include information on the Rail Authority's activities as a whole and information on the individual fund (the General Fund) of the Rail 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 Rail 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 Rail 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 Rail Authority are offset by revenues.

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

The balance sheet and statement of revenues, expenditures, and change 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 government-wide financial statements are reported using the economic resources measurement focus and the full 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The Minnesota Valley Regional Rail Authority considers all revenues as available if collected within 60 days after the end of the current period. Charges for services and interest are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal payments on long-term debt, which are recognized as expenditures to the extent that they have matured.

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. Cash and cash equivalents

The Rail Authority's cash balance represents funds in the checking account and short-term investments with original maturities of 24 months or less from the date of acquisition.

2. Receivables

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

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

1. Summary of Significant Accounting Policies

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

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 Rail 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 acquisition value (entry price) on 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 - infrastructure	70
Buildings	25
Machinery and equipment	5

During 2016, the management of the Minnesota Valley Regional Rail Authority reviewed estimates related to depreciation of land improvement capital assets and determined increasing the useful life of land improvements from 40 years to 70 years would better align depreciation expense with the assets' useful life. The change in accounting estimate is considered prospectively, and depreciation expense related to land improvements - infrastructure for the year ended December 31, 2016, is \$362,931 less than the prior estimate.

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

1. Summary of Significant Accounting Policies

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

5. Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. The General Fund reports only liabilities expected to be financed with available, spendable financial resources.

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports 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. The Rail Authority has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position reports 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 Rail Authority has one type of deferred inflows, unavailable revenue, that qualify for reporting in this category. The General Fund reports unavailable revenue from charges for services monies receivable for amounts that are not considered to be available to liquidate liabilities of the current period. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the General Fund's balance sheet. The unavailable revenue amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

7. Unearned Revenue

Governmental funds and government-wide financial statements report unearned revenue in connection with resources that have been received but not yet earned. At December 31, 2016, unearned revenue reported was the result of receiving state grants prior to the revenue recognition criteria being met.

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

1. Summary of Significant Accounting Policies (Continued)

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

8. 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.

9. Classification of Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Rail 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**

1. Summary of Significant Accounting Policies

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

9. 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 Rail 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 Rail 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 Rail Authority's Board.
- Unassigned - the residual classification for the General Fund and 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**

1. Summary of Significant Accounting Policies

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

10. 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, deferred outflows of resources, liabilities, and deferred inflows of resources; 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.

E. Special Item

Under the provisions contained in the 2017 Omnibus Transportation Bill, the Minnesota Legislature enacted, and the Governor of the State of Minnesota signed into law, Laws of Minnesota 2017, 1st Spec. Sess. Chapter 3, Article 3, section 131, that provided the Minnesota Department of Transportation convert the remaining loan balance on Contract No. 82779, originally executed with the Minnesota Valley Regional Rail Authority on January 28, 2002, to a grant, and cancel all future loan payments under the contract. Notwithstanding the loan conversion and payment cancellation, all other terms and conditions under Contract No. 82799 remain effective for the duration of the period specified in the contract. The conversion of the loan to a grant in the amount of \$4,107,574 is reported as a special item in the Reconciliation of the General Fund's Revenues, Expenditures, and Change in Fund Balance to the Statement of Activities.

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

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Cash and Cash Equivalents

The following table presents the Rail Authority's cash and deposit balances as follows:

	<u>December 31, 2016</u>	<u>December 31, 2017</u>
Checking	\$ 453,612	\$ 139,042
Certificates of deposit	<u>251,823</u>	<u>254,631</u>
Total Cash and Cash Equivalents	<u>\$ 705,435</u>	<u>\$ 393,673</u>

During the years ended December 31, 2016 and 2017, the Rail Authority reported no investments.

a. Deposits

The Rail 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 Rail 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.

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.

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

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

1. Cash and Cash Equivalents

a. Deposits (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Rail Authority's deposits may not be returned to it. The Rail Authority does not have a deposit policy for custodial credit risk. As of December 31, 2016 and 2017, the Rail Authority's deposits were not exposed to custodial credit risk.

2. Receivables and Revenue

Receivables for the Rail Authority were as follows:

	<u>December 31, 2016</u>	<u>December 31, 2017</u>
Accounts receivable	\$ 65,513	\$ 75,576
Due from other governments	-	123,460
Total	<u>\$ 65,513</u>	<u>\$ 199,036</u>

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

As of January 1, 2014, the Rail 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**

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 591,000	\$ -	\$ -	\$ 591,000
Construction in progress	-	63,157	-	63,157
Total capital assets not depreciated	\$ 591,000	\$ 63,157	\$ -	\$ 654,157
Capital assets depreciated				
Land improvements - infrastructure	\$ 29,925,890	\$ -	\$ -	\$ 29,925,890
Buildings	63,000	-	-	63,000
Total capital assets depreciated	\$ 29,988,890	\$ -	\$ -	\$ 29,988,890
Less: accumulated depreciation for				
Land improvements - infrastructure	\$ 5,741,795	\$ 385,216	\$ -	\$ 6,127,011
Buildings	47,250	3,150	-	50,400
Total accumulated depreciation	\$ 5,789,045	\$ 388,366	\$ -	\$ 6,177,411
Total capital assets depreciated, net	\$ 24,199,845	\$ (388,366)	\$ -	\$ 23,811,479
Net Capital Assets	\$ 24,790,845	\$ (325,209)	\$ -	\$ 24,465,636

Construction in progress consists of amounts completed on bridge projects under the rail line in Renville County.

Depreciation expense of \$388,366 was charged to the Rail Authority's economic development function for the year ended December 31, 2016.

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

2. Detailed Notes

A. Assets and Deferred Outflows of Resources

3. Capital Assets (Continued)

Capital asset activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 591,000	\$ -	\$ -	\$ 591,000
Construction in progress	63,157	81,560	63,157	81,560
Total capital assets not depreciated	<u>\$ 654,157</u>	<u>\$ 81,560</u>	<u>\$ 63,157</u>	<u>\$ 672,560</u>
Capital assets depreciated				
Land improvements - infrastructure	\$ 29,925,890	\$ 1,745,438	\$ -	\$ 31,671,328
Buildings	63,000	-	-	63,000
Total capital assets depreciated	<u>\$ 29,988,890</u>	<u>\$ 1,745,438</u>	<u>\$ -</u>	<u>\$ 31,734,328</u>
Less: accumulated depreciation for				
Land improvements - infrastructure	\$ 6,127,011	\$ 410,150	\$ -	\$ 6,537,161
Buildings	50,400	3,150	-	53,550
Total accumulated depreciation	<u>\$ 6,177,411</u>	<u>\$ 413,300</u>	<u>\$ -</u>	<u>\$ 6,590,711</u>
Total capital assets depreciated, net	<u>\$ 23,811,479</u>	<u>\$ 1,332,138</u>	<u>\$ -</u>	<u>\$ 25,143,617</u>
Net Capital Assets	<u>\$ 24,465,636</u>	<u>\$ 1,413,698</u>	<u>\$ 63,157</u>	<u>\$ 25,816,177</u>

Construction in progress consists of amounts completed on open rail line rehabilitation projects.

Depreciation expense of \$413,300 was charged to the Rail Authority's economic development function for the year ended December 31, 2017.

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

2. Detailed Notes on All Funds (Continued)

B. Liabilities and Deferred Inflows of Resources

1. Payables

Payables for the Rail Authority were as follows:

	December 31, 2016	December 31, 2017
Accounts payable	\$ 9,933	\$ 28,960
Contracts payable	22,497	83,120
Due to other governments	44,820	-
Total	\$ 77,250	\$ 112,080

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
State loan	\$ 4,258,889	\$ -	\$ 128,980	\$ 4,129,909	\$ 119,790
Operator loan	40,000	-	40,000	-	-
Total	\$ 4,298,889	\$ -	\$ 168,980	\$ 4,129,909	\$ 119,790

Long-term liability activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
State loan	\$ 4,129,909	\$ -	\$ 4,129,909	\$ -	\$ -

In 2002, the Rail 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 Rail 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 Rail Authority's rail line.

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

2. Detailed Notes on All Funds

B. Liabilities and Deferred Inflows of Resources

2. Changes in Long-Term Liabilities (Continued)

In 2016, the Rail Authority made the final loan payment on the operator loan.

The state loan payments are equal to the rail car rental revenue generated on the rail line 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.

As a result of the 2017 legislative session, the remaining \$4,107,574 balance on the state loan was converted to a grant. Prior to the 2017 conversion of the state loan to a grant, the Rail Authority made payment of \$22,335 on the loan. At December 31, 2017, the Rail Authority had no outstanding debt.

3. Deferred Inflows of Resources - Unavailable Revenue

Unavailable revenue consists of receivables for miscellaneous revenue from rail car storage not collected soon enough after year-end to pay liabilities of the current period. Unavailable revenue at December 31, 2017, was \$12,415.

3. Risk Management

The Rail 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 Rail Authority carries commercial insurance. To manage these risks, the Rail 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 Rail Authority is a member of only the Property and Casualty Division. For all other risk, the Rail 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.

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

3. Risk Management (Continued)

The Property and Casualty Division of MCIT is self-sustaining, and the Rail 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 Rail Authority in a method and amount to be determined by MCIT.

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, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 158,000	\$ 158,000	\$ 196,269	\$ 38,269
Intergovernmental	-	-	200,810	200,810
Charges for services	100,000	100,000	127,980	27,980
Investment earnings	200	200	1,449	1,249
Miscellaneous	97,000	97,000	251,290	154,290
Total Revenues	\$ 355,200	\$ 355,200	\$ 777,798	\$ 422,598
Expenditures				
Current				
Economic development				
Administration	\$ 112,616	\$ 112,616	\$ 143,324	\$ (30,708)
Rehabilitation	-	-	61,714	(61,714)
Repairs and maintenance	25,000	25,000	38,087	(13,087)
Debt service				
Principal	140,000	140,000	168,980	(28,980)
Total Expenditures	\$ 277,616	\$ 277,616	\$ 412,105	\$ (134,489)
Net Change in Fund Balance	\$ 77,584	\$ 77,584	\$ 365,693	\$ 288,109
Fund Balance - January 1	305,257	305,257	305,257	-
Fund Balance - December 31	\$ 382,841	\$ 382,841	\$ 670,950	\$ 288,109

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

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 155,000	\$ 155,000	\$ 182,689	\$ 27,689
Intergovernmental	-	-	1,459,627	1,459,627
Charges for services	100,000	100,000	122,235	22,235
Investment earnings	1,500	1,500	2,808	1,308
Miscellaneous	101,400	101,400	160,003	58,603
Total Revenues	\$ 357,900	\$ 357,900	\$ 1,927,362	\$ 1,569,462
Expenditures				
Current				
Economic development				
Administration	\$ 85,502	\$ 85,502	\$ 114,041	\$ (28,539)
Rehabilitation	532,000	532,000	1,774,643	(1,242,643)
Repairs and maintenance	25,000	25,000	219,079	(194,079)
Debt service				
Principal	100,000	100,000	22,335	77,665
Total Expenditures	\$ 742,502	\$ 742,502	\$ 2,130,098	\$ (1,387,596)
Net Change in Fund Balance	\$ (384,602)	\$ (384,602)	\$ (202,736)	\$ 181,866
Fund Balance - January 1	670,950	670,950	670,950	-
Fund Balance - December 31	\$ 286,348	\$ 286,348	\$ 468,214	\$ 181,866

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

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017**

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 Rail 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 Rail 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 Rail Authority did not amend any of its revenue and expenditure budgets during 2016 or 2017.

4. Excess of Expenditures Over Budget

For the year ended December 31, 2016, expenditures of \$412,105 exceeded the budgeted appropriations of \$277,616 by \$134,489 in the General Fund.

For the year ended December 31, 2017, expenditures of \$2,130,098 exceeded the budgeted appropriations of \$742,502 by \$1,387,596 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, 2016**

Grants

State

Minnesota Department of
Public Safety
Transportation

\$ 2,945
197,865

Total Intergovernmental Revenue

\$ 200,810

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

EXHIBIT B-2

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2017**

Grants

State

Minnesota Department of
Public Safety
Transportation

\$ 127,904

1,331,723

Total Intergovernmental Revenue

\$ 1,459,627

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JULIE BLAHA
STATE AUDITOR

STATE OF MINNESOTA

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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 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, 2016 and 2017, and the related notes to the financial statements, which collectively comprise the Rail Authority's basic financial statements, and have issued our report thereon dated February 7, 2019.

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 Rail 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 Rail Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rail 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 another deficiency that we consider to be a significant deficiency.

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 Rail 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 deficiency in the Rail Authority's internal control, identified as item 2000-001 in the Schedule of Findings and Recommendations, to be a significant deficiency.

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 Rail 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 Rail Authority, and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

February 7, 2019



JULIE BLAHA
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, 2016 and 2017, and the related notes to the financial statements, which collectively comprise the Rail Authority's basic financial statements, and have issued our report thereon dated February 7, 2019.

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. Additionally, we tested for compliance with the authority to issue public debt.

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*, except as described in the Schedule of Findings and Recommendations as item 2017-001. 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 Rail Authority's noncompliance with the above referenced provisions.

The Minnesota Valley Regional Rail Authority's written response to the legal compliance finding identified in our audit has been included in the Schedule of Findings and Recommendations. We did not audit the Rail Authority's response and, accordingly, we express no opinion on it.

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/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

February 7, 2019

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017**

I. INTERNAL CONTROL OVER FINANCIAL REPORTING

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding Number 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 Rail Authority contracts with the Redwood Area Development Corporation for administrative services where only one staff person performs all tasks related to administrative and accounting functions. As a result, the Rail Authority has one staff person who is responsible for collecting, recording, and depositing receipts as well as reconciling bank accounts. Additionally, this staff person is responsible for preparing and inputting journal entries in the general ledger.

Context: Due to the limited number of office personnel within the Rail 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 Rail 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 Rail Authority's ability to detect misstatements in a timely period by staff in the normal course of performing their assigned functions.

Cause: The Rail 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 the Rail 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 Board is aware of the lack of segregation of duties of the accounting functions, and provides the following oversight procedures:

- *All transactions that are our accounts receivable with Omega Rail Management are sent directly to our banking account as an automated clearing house payment monthly on the 10th of each month.*
- *The monthly payments we receive from Minnesota Prairie Line, Inc. (MPLI) for storage car revenue are deposited upon receipt of the check, and entered into QuickBooks (QB) and deposits and reported to the Board at the next meeting.*
- *The quarterly payment we receive from MPLI for carloads shipped is also received, entered into QB, and deposited upon receipt, and reported to the Board at the next meeting following receipt.*
- *The Treasurer reviews the reconciliation report at each meeting of the bank statement and signs off on the report which is attached with the bank statement.*

Finding Number 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: Material audit adjustments were identified that resulted in significant changes to the Rail Authority's financial statements.

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 Rail Authority's internal control.

Effect: The following audit adjustments were reviewed and approved by management and are reflected in the financial statements:

2016

General Fund:

- Increased due to other governments and debt service principal expenditures by \$44,820 to record the fourth quarter 2016 principal payment on the state loan in the proper period.
- Increased accounts receivable by \$65,513 for miscellaneous revenue received of \$20,693 for December rail car storage and charges for services for the fourth quarter rent payment of \$44,820 from Minnesota Prairie Line.
- Increased liabilities by \$45,245 for unearned revenue of \$22,748 received from the Minnesota Department of Transportation for an overpayment received in error during 2016 that was reduced from Minnesota Department of Transportation payments in 2017, and contracts payable by \$22,497 for costs incurred in 2016 related to the 2017 state bonding rehabilitation projects.
- Increased licenses and permits revenues and economic development administration expenditures by \$30,530 to record the commission earned and retained by Omega Rail Management that was not previously recorded in the general ledger.

2017

General Fund:

- Decreased accounts receivable and state grant intergovernmental revenue by \$90,537 for a \$41,154 FEMA overpayment that was repaid to the State of Minnesota in 2018 and licenses and permits revenues by \$49,383 for Omega Rail Management's collections on 2018 permits.
- Increased 2017 contracts payable and rehabilitation expenditures by \$73,641 to record additional contracts payable related to state bonding rehabilitation work on the rail line completed during 2017.

2017

Governmental Activities:

- Recorded a special item and increased net position by \$4,107,574 to properly record the Minnesota Department of Transportation loan conversion to a grant.
- Increased depreciable capital assets land improvements by \$1,257,290, increased related depreciation by \$355,972, and increased rehabilitation expense by \$1,613,262 to record additional capital assets from the state bonding rehabilitation project completed during 2017.

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

Recommendation: We recommend the Rail 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 appropriately that are considered necessary to fairly present the Rail Authority's financial statements in accordance with accounting principles generally accepted in the United States of America. We also recommend that the Rail Authority modify internal controls over financial reporting to detect misstatements in the financial statements.

Client's Response:

- *The audit adjustments findings were all acknowledged. With the loan conversion to a grant, the 4th quarter 2016 MPLI payment is always received the following year. The storage car payments are always delayed from MPLI so we are never current in the year it was billed from MPLI - they collect from the vendor and have the storage arrangements with them, and split the monthly fee with us as the owner of the track. It is not something we have control of. The overpayment was a mistake by the state of Minnesota and we refunded the percent back to them of the overpayment rather than keep it and take it off another payment to keep the paper trail cleaner. The commissions paid to Omega will now be deducted from the full amount they collect and will be reflected in our QB system in 2019. Our bond projects received extensions due to not getting the work completed by the deadline so yes, there will be carry over into the next year as the project work was not completed in the calendar year.*
- *If the Board decides and recommends, staff will connect with a more experienced accountant familiar with QuickBooks to assist with the adjustments.*

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

ITEM ARISING THIS YEAR

Finding Number 2017-001

Contracting and Bidding Compliance

Criteria: Minnesota statutes contain requirements for the contracting and bidding processes used by local governments.

Condition: During testing of compliance with the State of Minnesota contracting and bid laws, noncompliance with the following requirements was noted on a \$168,000 bid tested:

- **Sealed Bids:** During 2017, Minn. Stat. § 471.345, subd. 3, required sealed bids solicited by public notice on contracts estimated to exceed \$100,000. The Rail Authority did not require sealed bids.
- **Contractor's Performance and Payment Bond:** During 2017, Minn. Stat. § 574.26 required contractors doing public work to give both a performance bond and a payment bond in an amount not less than the contract price if the contract is more than \$100,000. The Rail Authority did not obtain a contractor's performance or a payment bond.
- **Withholding Affidavit for Contractors (IC-134):** Referring to the withholding of income taxes by the contractor or subcontractor, Minn. Stat. § 270C.66 states that, "No . . . political or governmental subdivision of the state shall make final settlement with any contractor under a contract requiring the employment of employees for wages by said contractor and by subcontractors until satisfactory showing is made that said contractor or subcontractor has complied with the provisions of section 290.92." The Rail Authority did not obtain an IC-134.

Context: During 2017, the Rail Authority administered only one project over the \$100,000 contracting threshold.

Effect: Noncompliance with Minn. Stat. §§ 471.345, 574.26, and 270C.66.

Cause: The Rail Authority's management did not consider the requirements of these statutes for this project.

Recommendation: We recommend the Rail Authority be aware of the statutory requirements to ensure compliance with applicable statutes for all future contracts.

Client's Response:

Staff and MVRRA Board will be in compliance going forward with the IC-134 for any work over \$100,000, and require a performance bond and payment bond for the contractor's work.

III. PREVIOUSLY REPORTED ITEM RESOLVED

2015-002 Service Organization Control Report