

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

Minnesota Valley Regional Rail Authority Redwood Falls, Minnesota

Years Ended December 31, 2020 and 2021

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 100 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 Minnesota’s local 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, 2020 and 2021



Office of the State Auditor

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

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

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

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INTRODUCTORY SECTION

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

ORGANIZATION
2020

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Bob Fox	Chair	Appointed Yearly
Tom Workman	Vice Chair	Appointed Yearly
Dennis Groebner	Secretary/Treasurer	Appointed Yearly
Ron Antony	Member	Appointed Yearly
Steve Saxton	Member	Appointed Yearly
Scott Blumhoefer	Member	Appointed Yearly
Julie Rath	Administrator	Appointed Yearly
Aaron Walton	Legal Counsel	Appointed Yearly

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

ORGANIZATION
2021

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Bob Fox	Chair	Appointed Yearly
Tom Workman	Vice Chair	Appointed Yearly
Dennis Groebner	Secretary/Treasurer	Appointed Yearly
Ron Antony	Member	Appointed Yearly
Steve Saxton	Member	Appointed Yearly
Chuck Steffl*	Member	Appointed Yearly
Julie Rath	Administrator	Appointed Yearly
Aaron Walton	Legal Counsel	Appointed Yearly

*Scott Blumhoefer resigned as of February 5, 2021

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Board Members
Minnesota Valley Regional Rail Authority
Redwood Falls, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and the General Fund of the Minnesota Valley Regional Rail Authority as of and for the years ended December 31, 2020 and 2021, 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.

In our opinion, the accompanying 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, 2020 and 2021, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Rail Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Rail Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, we:

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements; and
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Rail Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis, Budgetary Comparison Schedules, and Notes to the Required Supplementary Information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a 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 Schedules of Intergovernmental Revenue are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such 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. The 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 Supplementary Information as identified above 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/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

November 15, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 AND 2021
(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, 2020 and 2021. 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 2020, the assets of the Rail Authority exceed its liabilities by \$30,663,338 (net position), of which \$29,711,079 is the net investment in capital assets (Exhibit 1), leaving unrestricted net position of \$935,449.
- In 2021, the assets of the Rail Authority exceeded its liabilities by \$31,347,627 (net position), of which \$30,392,096 is the net investment in capital assets (Exhibit 3), leaving unrestricted net position of \$955,531.
- The Rail Authority's total net position increased \$469,572, or 1.56 percent, in 2020. The Rail Authority's total net position increased \$701,099, or 2.29 percent, in 2021.

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 19 through 30 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 2019, 2020 revenues for the Rail Authority's General Fund increased by \$403,377 and expenditures increased by \$9,016, primarily due to the state disaster reimbursements received during 2020. As compared to 2020, 2021 revenues for the Rail Authority's General Fund decreased by \$814,769 and expenditures decreased by \$389,293, due to the minimal work completed during 2021 on improvement projects.

The General Fund balance increased by \$458,446 from 2019 to 2020, for a total unassigned fund balance of \$912,949 as of December 31, 2020. The General Fund balance increased by \$32,970 from 2020 to 2021, for a total unassigned fund balance of \$945,919.

The Minnesota Valley Regional Rail Authority adopts an annually appropriated budget for its General Fund. A budgetary comparison schedule for 2020 and for 2021 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 \$30,646,528 at the close of 2020, and by \$31,347,627 at the close of 2021. 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 2019 is presented.

	Net Position		
	2021	2020	2019
Assets			
Current and other assets	\$ 970,758	\$ 947,259	\$ 899,717
Capital assets	<u>30,401,708</u>	<u>29,716,079</u>	<u>29,340,581</u>
Total Assets	<u>\$ 31,372,466</u>	<u>\$ 30,663,338</u>	<u>\$ 30,240,298</u>
Liabilities			
Current liabilities	<u>\$ 24,839</u>	<u>\$ 16,810</u>	<u>\$ 63,342</u>
Net Position			
Net investment in capital assets	\$ 30,392,096	\$ 29,711,079	\$ 29,291,581
Unrestricted	<u>955,531</u>	<u>935,449</u>	<u>885,375</u>
Total Net Position	<u>\$ 31,347,627</u>	<u>\$ 30,646,528</u>	<u>\$ 30,176,956</u>

Governmental Activities

The Minnesota Valley Regional Rail Authority's activities increased the Rail Authority's net position during 2020 by \$469,572, representing a 1.56 percent increase, and increased net position during 2021 by \$701,099, representing a 2.29 percent increase, primarily because of change in the Rail Authority's state bonding funds for rehabilitation of the rail. Key elements in these increases in net position are as follows:

Changes in Net Position

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Revenues			
Program revenues			
Licenses and permits	\$ 232,823	\$ 190,206	\$ 191,773
Intergovernmental	665,550	1,001,410	1,275,818
Charges for services	146,220	137,910	102,390
Capital contributions	293,685	15,000	-
General revenues			
Investment earnings	190	9,390	1,298
Miscellaneous	106,727	265,491	102,264
	<u>1,445,195</u>	<u>1,619,407</u>	<u>1,673,543</u>
Total Revenues	\$ 1,445,195	\$ 1,619,407	\$ 1,673,543
Expenses			
Program expenses			
Economic development	744,096	1,149,835	1,172,960
	<u>744,096</u>	<u>1,149,835</u>	<u>1,172,960</u>
Change in Net Position	\$ 701,099	\$ 469,572	\$ 500,583
Net Position – January 1	<u>30,646,528</u>	<u>30,176,956</u>	<u>29,676,373</u>
Net Position – December 31	<u>\$ 31,347,627</u>	<u>\$ 30,646,528</u>	<u>\$ 30,176,956</u>

General Fund Budgetary Highlights

There were no differences between the original General Fund expenditure budget and the final budget in 2020 and 2021.

Actual General Fund 2020 revenues exceeded budgeted revenues by \$1,495,658, primarily due to more pass-through intergovernmental revenues recognized than anticipated, additional car storage rental income, and additional rail car rental income. Actual General Fund 2021 revenues exceeded budgeted revenues by \$794,768, primarily due to more pass-through intergovernmental revenues recognized than anticipated, additional car storage rental income, and additional rail car rental income.

Actual 2020 expenditures exceeded budgeted expenditures by \$141,870. The expenditures were more than expected and reflect rehabilitation and improvement costs that were more than anticipated. Actual 2021 expenditures exceeded budgeted expenditures by \$919,823. The expenditures were more than expected and reflect rehabilitation and improvement costs that were more than anticipated.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Minnesota Valley Regional Rail Authority's capital assets (net of accumulated depreciation) at December 31, 2020 and 2021, totaled \$29,716,079 and \$30,401,708, respectively. This investment in capital assets includes land improvements and a building. The Rail Authority's 2020 and 2021 investment in land improvements increased \$375,498 and \$685,629, respectively, from the previous years due to starting the state bonding projects for rehabilitation of the rail.

	Capital Assets at Year-End (Net of Depreciation)		
	2021	2020	2019
Capital assets not depreciated			
Land	\$ 654,890	\$ 654,890	\$ 591,000
Construction in progress	606,453	13,385	-
Total capital assets not depreciated	<u>\$ 1,261,343</u>	<u>\$ 668,275</u>	<u>\$ 591,000</u>
Capital assets depreciated			
Land improvements – infrastructure	\$ 37,597,338	\$ 37,009,969	\$ 36,222,179
Buildings	63,000	63,000	63,000
Total capital assets depreciated	<u>\$ 37,660,338</u>	<u>\$ 37,072,969</u>	<u>\$ 36,285,179</u>
Less: accumulated depreciation for			
Land improvements – infrastructure	\$ 8,456,973	\$ 7,962,165	\$ 7,475,748
Buildings	63,000	63,000	59,850
Total accumulated depreciation	<u>\$ 8,519,973</u>	<u>\$ 8,025,165</u>	<u>\$ 7,535,598</u>
Total capital assets depreciated, net	<u>\$ 29,140,365</u>	<u>\$ 29,047,804</u>	<u>\$ 28,749,581</u>
Net Capital Assets	<u>\$ 30,401,708</u>	<u>\$ 29,716,079</u>	<u>\$ 29,340,581</u>

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 2020 and 2021, the Rail Authority had no outstanding debt. Other liabilities and contingencies are described in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The Rail Authority was awarded \$10 million in the 2020 legislative session. Of these funds, \$1,113,417 were used for the replacement of the trestle bridge over Crow Creek with a cement bridge. The project was completed by Kraemer North America in 2022. In addition, \$7,747,482 of this funding was used for rehabilitation of the rail from Gibbon to Fairfax, mile point (MP) 88.3 to 97.7. The project was completed by Railworks in 2022. Of this funding, \$529,231 was for MPLI to replace railroad ties from Gibbon to Fairfax for the Railworks project; this was completed in 2021.

In 2021, the Rail Authority, in collaboration with the Minnesota Department of Transportation (MN DOT), completed a silt mitigation project. This project created sediment ponds to control the water flow and silt on the tracks and highway to address excess runoff from the bluff. Total project costs were \$587,370, with the Rail Authority's share \$293,685 and a capital contribution from MN DOT of \$293,685.

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

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

EXHIBIT 1

**GENERAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION
DECEMBER 31, 2020**

	General Fund	Reconciliation	Governmental Activities
<u>Assets</u>			
Current assets			
Cash and cash equivalents	\$ 190,728	\$ -	\$ 190,728
Accounts receivable	86,762	-	86,762
Due from other governments	669,769	-	669,769
Capital assets			
Non-depreciable	-	668,275	668,275
Depreciable – net	-	29,047,804	29,047,804
Total Assets	\$ 947,259	\$ 29,716,079	\$ 30,663,338
<u>Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position</u>			
Liabilities			
Current liabilities			
Accounts payable	\$ 11,810	\$ -	\$ 11,810
Contracts payable	5,000	-	5,000
Total Liabilities	\$ 16,810	\$ -	\$ 16,810
Deferred Inflows of Resources			
Unavailable revenue	\$ 17,500	\$ (17,500)	
Fund Balance			
Unassigned	\$ 912,949	\$ (912,949)	
Net Position			
Net investment in capital assets		\$ 29,711,079	\$ 29,711,079
Unrestricted		935,449	935,449
Total Net Position		\$ 30,646,528	\$ 30,646,528
Total Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position	\$ 947,259	\$ 29,716,079	\$ 30,663,338

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

***EXHIBIT 1
(Continued)***

**GENERAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION
DECEMBER 31, 2020**

Reconciliation of the General Fund Balance to Net Position

Fund Balance – General Fund	\$	912,949
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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.

17,500

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.

29,716,079

Net Position – Governmental Activities

\$ 30,646,528

**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, 2020**

	General Fund	Reconciliation	Governmental Activities
Revenues			
Licenses and permits	\$ 190,206	\$ -	\$ 190,206
Intergovernmental	1,383,282	(381,872)	1,001,410
Charges for services	137,910	-	137,910
Investment earnings	9,390	-	9,390
Miscellaneous	247,991	17,500	265,491
Capital contributions	15,000	-	15,000
	\$ 1,983,779	\$ (364,372)	\$ 1,619,407
Expenditures/Expenses			
Current			
Economic development			
Administration	\$ 240,529	\$ -	\$ 240,529
Rehabilitation and improvements	889,843	(375,498)	514,345
Repairs and maintenance	394,961	-	394,961
	\$ 1,525,333	\$ (375,498)	\$ 1,149,835
Net Change in Fund Balance/Net Position	\$ 458,446	\$ 11,126	\$ 469,572
Fund Balance/Net Position – January 1	454,503	29,722,453	30,176,956
Fund Balance/Net Position – December 31	\$ 912,949	\$ 29,733,579	\$ 30,646,528

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

***EXHIBIT 2
(Continued)***

**GENERAL FUND REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
AND GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020**

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

Change in Fund Balance	\$	458,446
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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	\$	17,500	
Unavailable revenue – January 1		<u>(381,872)</u>	(364,372)

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	\$	865,065	
Current year depreciation		<u>(489,567)</u>	<u>375,498</u>

Change in Net Position of Governmental Activities	\$	<u>469,572</u>
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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, 2021**

	General Fund	Reconciliation	Governmental Activities
<u>Assets</u>			
Current assets			
Cash and cash equivalents	\$ 892,280	\$ -	\$ 892,280
Accounts receivable	71,288	-	71,288
Due from other governments	7,190	-	7,190
Capital assets			
Non-depreciable	-	1,261,343	1,261,343
Depreciable – net	-	29,140,365	29,140,365
Total Assets	\$ 970,758	\$ 30,401,708	\$ 31,372,466
 <u>Liabilities and Fund Balance/Net Position</u>			
Liabilities			
Current liabilities			
Accounts payable	\$ 15,227	\$ -	\$ 15,227
Contracts payable	9,612	-	9,612
Total Liabilities	\$ 24,839	\$ -	\$ 24,839
Fund Balance			
Unassigned	\$ 945,919	\$ (945,919)	
Net Position			
Net investment in capital assets		\$ 30,392,096	\$ 30,392,096
Unrestricted		955,531	955,531
Total Net Position		\$ 31,347,627	\$ 31,347,627
Total Liabilities and Fund Balance/Net Position	\$ 970,758	\$ 30,401,708	\$ 31,372,466
 Reconciliation of the General Fund Balance to Net Position			
Fund Balance – General Fund			\$ 945,919
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.			30,401,708
Net Position – Governmental Activities			\$ 31,347,627

**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, 2021**

	General Fund	Reconciliation	Governmental Activities
Revenues			
Licenses and permits	\$ 232,823	\$ -	\$ 232,823
Intergovernmental	665,550	-	665,550
Charges for services	146,220	-	146,220
Investment earnings	190	-	190
Miscellaneous	124,227	(17,500)	106,727
Capital contributions	-	293,685	293,685
	\$ 1,169,010	\$ 276,185	\$ 1,445,195
Expenditures/Expenses			
Current			
Economic development			
Administration	\$ 164,760	\$ -	\$ 164,760
Rehabilitation and improvements	883,551	(391,944)	491,607
Repairs and maintenance	87,729	-	87,729
	\$ 1,136,040	\$ (391,944)	\$ 744,096
Net Change in Fund Balance/Net Position	\$ 32,970	\$ 668,129	\$ 701,099
Fund Balance/Net Position – January 1	912,949	29,733,579	30,646,528
Fund Balance/Net Position – December 31	\$ 945,919	\$ 30,401,708	\$ 31,347,627

**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, 2021**

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

Change in Fund Balance	\$	32,970
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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 – January 1		(17,500)
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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	\$	886,752	
Capital contributions – State of Minnesota		293,685	
Current year depreciation		(494,808)	
		685,629	
Change in Net Position of Governmental Activities	\$		<u>701,099</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2021**

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, 2020 and 2021. 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. The Rail Authority reported no prepaid items for the years ended December 31, 2020 and 2021.

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 assets 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

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.

**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)

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 assets 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 for the years ended December 31, 2020 and 2021.

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 assets that applies to a future period(s) and will not be recognized as an inflow of resources (revenue or reduction of expense) until that time. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental fund's balance sheet. This unavailable revenue amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. At December 31, 2020, the General Fund reports unavailable revenue from miscellaneous revenue.

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. The Rail Authority reported no unearned revenue for the years ended December 31, 2020 and 2021.

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.

**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

8. Classification of Net Position (Continued)

- 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.
- 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.

**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)

- 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.

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.

**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, 2020</u>	<u>December 31, 2021</u>
Checking	\$ 60,213	\$ 761,575
Certificates of deposit	<u>130,515</u>	<u>130,705</u>
Total Cash and Cash Equivalents	<u>\$ 190,728</u>	<u>\$ 892,280</u>

During the years ended December 31, 2020 and 2021, 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, 2020 and 2021, 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, 2020</u>	<u>December 31, 2021</u>
Accounts receivable	\$ 86,762	\$ 71,288
Due from other governments	<u>669,769</u>	<u>7,190</u>
Total	<u>\$ 756,531</u>	<u>\$ 78,478</u>

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

The Rail Authority contracts 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, 2020, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 591,000	\$ 63,890	\$ -	\$ 654,890
Construction in progress	-	13,385	-	13,385
Total capital assets not depreciated	<u>\$ 591,000</u>	<u>\$ 77,275</u>	<u>\$ -</u>	<u>\$ 668,275</u>
Capital assets depreciated				
Land improvements – infrastructure	\$ 36,222,179	\$ 787,790	\$ -	\$ 37,009,969
Buildings	63,000	-	-	63,000
Total capital assets depreciated	<u>\$ 36,285,179</u>	<u>\$ 787,790</u>	<u>\$ -</u>	<u>\$ 37,072,969</u>
Less: accumulated depreciation for				
Land improvements – infrastructure	\$ 7,475,748	\$ 486,417	\$ -	\$ 7,962,165
Buildings	59,850	3,150	-	63,000
Total accumulated depreciation	<u>\$ 7,535,598</u>	<u>\$ 489,567</u>	<u>\$ -</u>	<u>\$ 8,025,165</u>
Total capital assets depreciated, net	<u>\$ 28,749,581</u>	<u>\$ 298,223</u>	<u>\$ -</u>	<u>\$ 29,047,804</u>
Net Capital Assets	<u>\$ 29,340,581</u>	<u>\$ 375,498</u>	<u>\$ -</u>	<u>\$ 29,716,079</u>

Depreciation expense of \$489,567 was charged to the Rail Authority's economic development function for the year ended December 31, 2020.

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

2. Detailed Notes on All Funds

A. Assets and Deferred Outflows of Resources

3. Capital Assets (Continued)

Capital asset activity for the year ended December 31, 2021, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 654,890	\$ -	\$ -	\$ 654,890
Construction in progress	13,385	593,068	-	606,453
Total capital assets not depreciated	<u>\$ 668,275</u>	<u>\$ 593,068</u>	<u>\$ -</u>	<u>\$ 1,261,343</u>
Capital assets depreciated				
Land improvements – infrastructure	\$ 37,009,969	\$ 587,369	\$ -	\$ 37,597,338
Buildings	63,000	-	-	63,000
Total capital assets depreciated	<u>\$ 37,072,969</u>	<u>\$ 587,369</u>	<u>\$ -</u>	<u>\$ 37,660,338</u>
Less: accumulated depreciation for				
Land improvements – infrastructure	\$ 7,962,165	\$ 494,808	\$ -	\$ 8,456,973
Buildings	63,000	-	-	63,000
Total accumulated depreciation	<u>\$ 8,025,165</u>	<u>\$ 494,808</u>	<u>\$ -</u>	<u>\$ 8,519,973</u>
Total capital assets depreciated, net	<u>\$ 29,047,804</u>	<u>\$ 92,561</u>	<u>\$ -</u>	<u>\$ 29,140,365</u>
Net Capital Assets	<u>\$ 29,716,079</u>	<u>\$ 685,629</u>	<u>\$ -</u>	<u>\$ 30,401,708</u>

Depreciation expense of \$494,808 was charged to the Rail Authority’s economic development function for the year ended December 31, 2021.

**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, 2020	December 31, 2021
Accounts payable	\$ 11,810	\$ 15,227
Contracts payable	5,000	9,612
Total	\$ 16,810	\$ 24,839

2. Deferred Inflows of Resources – Unavailable Revenue

Unavailable revenue consists of the following receivables not collected soon enough after year-end to pay liabilities of the current period:

	December 31, 2020	December 31, 2021
Miscellaneous revenue	\$ 17,500	\$ -

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.

4. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

The Rail Authority, in conjunction with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Rail Authority Attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

REQUIRED SUPPLEMENTARY INFORMATION

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

EXHIBIT A-1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 210,000	\$ 210,000	\$ 190,206	\$ (19,794)
Intergovernmental	94,921	94,921	1,383,282	1,288,361
Charges for services	75,000	75,000	137,910	62,910
Investment earnings	700	700	9,390	8,690
Miscellaneous	107,500	107,500	247,991	140,491
Capital contributions	-	-	15,000	15,000
Total Revenues	<u>\$ 488,121</u>	<u>\$ 488,121</u>	<u>\$ 1,983,779</u>	<u>\$ 1,495,658</u>
Expenditures				
Current				
Economic development				
Administration	\$ 261,812	\$ 261,812	\$ 240,529	\$ 21,283
Rehabilitation and improvements	678,440	678,440	889,843	(211,403)
Repairs and maintenance	443,211	443,211	394,961	48,250
Total Expenditures	<u>\$ 1,383,463</u>	<u>\$ 1,383,463</u>	<u>\$ 1,525,333</u>	<u>\$ (141,870)</u>
Net Change in Fund Balance	<u>\$ (895,342)</u>	<u>\$ (895,342)</u>	<u>\$ 458,446</u>	<u>\$ 1,353,788</u>
Fund Balance – January 1	<u>454,503</u>	<u>454,503</u>	<u>454,503</u>	<u>-</u>
Fund Balance – December 31	<u><u>\$ (440,839)</u></u>	<u><u>\$ (440,839)</u></u>	<u><u>\$ 912,949</u></u>	<u><u>\$ 1,353,788</u></u>

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

EXHIBIT A-2

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 195,542	\$ 195,542	\$ 232,823	\$ 37,281
Intergovernmental	-	-	665,550	665,550
Charges for services	100,000	100,000	146,220	46,220
Investment earnings	700	700	190	(510)
Miscellaneous	78,000	78,000	124,227	46,227
Total Revenues	\$ 374,242	\$ 374,242	\$ 1,169,010	\$ 794,768
Expenditures				
Current				
Economic development				
Administration	\$ 134,717	\$ 134,717	\$ 164,760	\$ (30,043)
Rehabilitation and improvements	-	-	883,551	(883,551)
Repairs and maintenance	81,500	81,500	87,729	(6,229)
Total Expenditures	\$ 216,217	\$ 216,217	\$ 1,136,040	\$ (919,823)
Net Change in Fund Balance	\$ 158,025	\$ 158,025	\$ 32,970	\$ (125,055)
Fund Balance – January 1	912,949	912,949	912,949	-
Fund Balance – December 31	\$ 1,070,974	\$ 1,070,974	\$ 945,919	\$ (125,055)

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

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2021**

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's 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 2020 or 2021.

4. Excess of Expenditures Over Budget

For the year ended December 31, 2020, expenditures of \$1,525,333 exceeded the budgeted appropriations of \$1,383,463 by \$141,870 in the General Fund.

For the year ended December 31, 2021, expenditures of \$1,136,040 exceeded the budgeted appropriations of \$216,217 by \$919,823 in the General Fund.

SUPPLEMENTARY INFORMATION

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

EXHIBIT B-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2020**

Grants

State

Minnesota Department of Public Safety	\$ 693,499
Transportation	<u>618,592</u>
Total state	\$ 1,312,091

Federal

Department of Homeland Security	<u>71,191</u>
Total Intergovernmental Revenue	<u><u>\$ 1,383,282</u></u>

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

EXHIBIT B-2

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2021**

Grants

State

Minnesota Department of Public Safety	\$ 81,689
Transportation	<u>583,861</u>
Total Intergovernmental Revenue	<u><u>\$ 665,550</u></u>

MANAGEMENT AND COMPLIANCE SECTION



**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, 2020 and 2021, 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 November 15, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Minnesota Valley Regional Rail Authority's internal control over financial reporting 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rail Authority's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Rail Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. We did identify a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as item 2021-001, that we consider to be a significant deficiency.

Other Matters

The Minnesota Valley Regional Rail Authority's response to the internal control finding identified in our audit is described in the Schedule of Findings and Recommendations included in item 2021-001. The Rail Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

November 15, 2022



**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, 2020 and 2021, 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 November 15, 2022.

In connection with our audit, we noted that the Minnesota Valley Regional Rail Authority failed to comply with the provisions of the contracting – bid laws section of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters, as described in the Schedule of Findings and Recommendations as item 2021-002. Also, 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 depositories of public funds and public investments, conflicts of interest, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, insofar as they relate to accounting matters. 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, insofar as they relate to accounting matters.

The Minnesota Valley Regional Rail Authority's response to the legal compliance finding identified in our audit is described in the Schedule of Findings and Recommendations. The Minnesota Valley Regional Rail Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements 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

November 15, 2022

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2021**

I. INTERNAL CONTROL OVER FINANCIAL REPORTING

2021-001 Segregation of Duties

Prior Year Finding Number: 2019-001

Repeat Finding Since: 2000

Type of Finding: Internal Control Over Financial Reporting

Severity of Deficiency: Significant Deficiency

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.

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2021**

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:

As staff of MVRRA, we have not made any deposits on behalf of the entity since 2020. Omega does all the billing for our license agreements, collects the funds, and then does an ACH deposit transfer directly to our checking account. The only entry completed by MVRRA staff is to enter this activity into Quickbooks. The DOT payments for our bond reimbursements are handled the same. MVRRA invoices them and provides the detailed invoice information for reimbursement. This is an ACH payment from MMB directly into our checking account.

Regarding processing of monthly invoices that MVRRA pays, staff does enter and process the checks. The bank statement could be reconciled by another RADC staff member, therefore we do have the ability to segregate these duties.

II. OTHER FINDINGS AND RECOMMENDATIONS

2021-002 Contracting and Bidding Compliance

Prior Year Finding Number: 2019-003

Repeat Finding Since: 2017

Type of Finding: Minnesota Legal 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:

- Contracts to be Bid: Minn. Stat. § 471.435, subd. 3, requires contracts estimated to exceed \$175,000 that involve the “construction, alteration, repair or maintenance of real” property be formally bid to obtain sealed bids. One contract tested in the amount of \$529,231 was not formally bid.

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2021**

- **Contract Language:** Minn. Stat. § 471.425, subd. 4a, requires that the contract between the government entity and a prime contractor contain language that requires the prime contractor to pay subcontractors within ten days of receipt of payment from the government entity or pay interest at the rate of 1.5 percent per month or any part of a month. For both contracts tested requiring the specific language in the contract with the prime contractor, the language was not included.
- **Responsible Contractor Requirement:** Minn. Stat. § 16C.285, subd. 4, requires that for each construction contract in excess of \$50,000, awarded pursuant to a lowest responsible bidder, the successful contractor is to submit a verification of compliance signed under oath by an owner or officer verifying compliance with the minimum criteria set forth in Minn. Stat. § 16C.285, subd. 3 (with the exception of clause (7)). For both of the contracts tested over \$50,000, this certification was not obtained.
- **Withholding Affidavit for Contractors (Form IC-134):** Minn. Stat. § 270C.66 states that, before making final settlement with any contractor under a contract requiring the employment of employees for wages by the contractor and by subcontractors, the Rail Authority is required to obtain a certificate from the Commissioner of Revenue that the contractor or subcontractor has complied with the withholding requirements of Minn. Stat. § 290.92. The Rail Authority did not obtain IC-134 forms for five of the six contracts tested during 2020 and 2021.

Context: The Rail Authority manages rehabilitation contracts as well as repair and maintenance contracts with the assistance of consultants. The Rail Authority frequently obtains bids and quotes for culvert repairs or replacement.

Effect: Noncompliance with Minn. Stat. §§ 16C.285, 270C.66, 471.425, and 471.435.

Cause: The Rail Authority relies on consultants to assist in the contracting process for repairs and maintenance on the rail line. The Rail Authority does not have a contracting policy or guide to follow to ensure compliance with Minnesota statutory requirements.

Recommendation: We recommend the Rail Authority update its policy and procedures manual to include contracting requirements so that management overseeing outside consultants will be aware of the statutory requirements to ensure compliance with applicable statutes for all future contracts.

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2021**

Client's Response:

As staff of MVRRA, we agree that a contracting policy needs to be put into place that is in compliance with all the MN Statutes referenced in your recommendation. Regarding the IC-134, we now know that this needs to be completed by anyone who does any construction projects for MVRRA, no matter what the contracted amount of the job. We would like our legal counsel to draft a contracting policy referencing all the statutes that you point out in your recommendation to the MVRRA Board.