

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

---

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

YEAR ENDED DECEMBER 31, 2004

## **Description of the Office of the State Auditor**

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

**Tax Increment Financing, Investment and Finance** - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

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

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

**Year Ended December 31, 2004**



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

This page was left blank intentionally.

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

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
<u>Introductory Section</u>		
Organization		1
<u>Financial Section</u>		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Statement of Net Assets and Governmental Fund Balance Sheet	Exhibit 1	10
Statement of Activities and Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance	Exhibit 2	11
Statement of Revenues, Expenditures, and Changes in Fund Balance--Budgetary Comparison	Exhibit 3	12
Notes to the Financial Statements		13
Supplementary Information		
Schedule of Intergovernmental Revenue	Schedule 1	23
<u>Management and Compliance Section</u>		
Schedule of Findings and Questioned Costs	Schedule 2	24
Other Required Reports		
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		28
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		30
Schedule of Expenditures of Federal Awards	Schedule 3	32

This page was left blank intentionally.



This page was left blank intentionally.

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

ORGANIZATION  
2004

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Bruce Pinske*	Chair	Appointed Yearly
Eugene Short	Vice Chair	Appointed Yearly
Jane Remiger	Secretary/Treasurer	Appointed Yearly
Tom Workman	Member	Appointed Yearly
Charlie Woehler	Member	Appointed Yearly
Robert Fox	Member	Appointed Yearly
Julie Rath	Administrator	Appointed Yearly
David Schauer	Legal Counsel	Appointed Yearly

\*Chair 2004 and 2005

This page was left blank intentionally.



This page was left blank intentionally.



PATRICIA ANDERSON  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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

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

## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Minnesota Valley Regional Railroad Authority

We have audited the basic financial statements of the governmental activities and the individual major fund of the Minnesota Valley Regional Railroad Authority as of and for the year ended December 31, 2004, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the individual major fund of the Minnesota Valley Regional Railroad Authority as of December 31, 2004, and the changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Minnesota Valley Regional Railroad Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended, and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended December 31, 2004. These statements result in a change in the format and content of the basic financial statements.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of the Minnesota Valley Regional Railroad Authority. The schedule listed as supplementary information in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2005, on our consideration of the Minnesota Valley Regional Railroad Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: June 10, 2005

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This page was left blank intentionally.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2004  
(Unaudited)**

As management of the Minnesota Valley Regional Railroad Authority, we offer the readers of the Authority's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended December 31, 2004. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements. All amounts, unless otherwise indicated, are expressed in whole dollars. Because this is the first year of implementation of Governmental Accounting Standards Board Statement 34, the Management's Discussion and Analysis (MD&A) does not include comparative financial information. Comparative data will be included in future reports.

**Financial Reporting Entity**

The Minnesota Valley Regional Railroad Authority was established June 21, 1982, under the Regional Railroad Authorities Act, Minn. Stat. § 398A.03. The Authority is governed by a board composed of one member from the Board of County Commissioners of Carver County, Redwood County, Renville County, Sibley County, and Yellow Medicine County, and a representative from the Shipper's Association. The Authority is organized with a chair, a vice chair, and a secretary/treasurer.

**Financial Highlights**

The assets of the Minnesota Valley Regional Railroad Authority exceeded its liabilities by \$4,247,721 (net assets), of which \$4,265,099 is invested in capital assets (Exhibit 1), leaving unrestricted net assets of \$(17,378). The negative net assets will be eliminated by future operating revenues.

The Authority's total net assets increased by \$1,512,816 in 2004. This is attributable to an increase in intergovernmental revenues.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The Minnesota Valley Regional Railroad Authority's basic financial statements consist of two statements that combine government-wide financial statements and fund financial

statements, a budgetary comparison statement, and notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

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

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

### **Governmental Fund**

Revenues for the Authority's General Fund increased by \$1,670,704, while total expenditures increased \$1,489,884.

As shown in the Statement of Activities on Exhibit 2, the amount that was received through intergovernmental revenue was 96.2 percent of the total revenue received, or \$1,950,430.

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

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

**Other information** is provided as supplementary information regarding the Minnesota Valley Regional Railroad Authority's intergovernmental revenues.

## **Government-Wide Financial Analysis**

Over time, net assets serve as a useful indicator of the Authority's financial position. The Minnesota Valley Regional Railroad Authority's assets exceeded liabilities by \$4,247,721 at the close of 2004. The largest portion of the Authority's net assets reflects the Authority's investment in capital assets (for example, land, buildings, equipment and infrastructure, such as the rail bed), less any related debt used to acquire those assets (that is still outstanding). However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

	<u>Governmental Activities</u>
Assets	
Current and other assets	\$ 152,197
Capital assets	<u>10,172,588</u>
Total Assets	<u>\$ 10,324,785</u>
Liabilities	
Long-term liabilities	\$ 5,954,436
Other liabilities	<u>122,628</u>
Total Liabilities	<u>\$ 6,077,064</u>
Net Assets	
Invested in capital assets, net of related debt	\$ 4,265,099
Unrestricted	<u>(17,378)</u>
Total Net Assets	<u>\$ 4,247,721</u>

The Authority will eliminate the negative unrestricted net assets amount of \$(17,378) as of December 31, 2004, with future operations revenue.

## **Governmental Activities**

The Minnesota Valley Regional Railroad Authority's activities increased the Authority's net assets during 2004 by \$1,512,816, representing a 55.3 percent increase, primarily because of the Authority's investment in capital assets. Key elements in this increase in net assets are as follows:

## Minnesota Valley Regional Railroad Authority Changes in Net Assets

	Governmental Activities
Revenues	
Program revenues	
Charges for services	\$ 37,290
Intergovernmental	1,950,430
General revenues	
Interest earnings	257
Miscellaneous	38,612
	\$ 2,026,589
Total Revenues	
Expenses	
Economic development	\$ 512,107
Interest	1,666
	\$ 513,773
Total Expenses	
Increase in Net Assets	\$ 1,512,816
Net Assets - January 1	2,734,905
Net Assets - December 31	\$ 4,247,721

### **General Fund Budgetary Highlights**

No differences between the original General Fund expenditure budget and the final budget were experienced in 2004.

Budgeted General Fund revenues exceeded actual revenues by \$74,411, primarily due to less pass-through intergovernmental receipts and less than expected miscellaneous receipts.

Actual expenditures exceeded budgeted expenditures by \$189,541. The more than expected expenditures reflect higher than anticipated operating costs. Loan payments were not included in the 2004 budget.

### **Capital Assets and Debt Administration**

**Capital Assets.** The Minnesota Valley Regional Railroad Authority's depreciable capital assets at December 31, 2004, totaled \$7,678,446 (net of accumulated depreciation). This investment in capital assets includes land improvements, buildings, and equipment. The Authority's investment in land improvements increased \$6,998,643 from the previous year.

### Minnesota Valley Regional Railroad Authority's Governmental Capital Assets

	<u>2003</u>	<u>2004</u>
Capital assets depreciated		
Land improvements	\$ 1,236,260	\$ 8,234,903
Buildings	63,000	63,000
Machinery and equipment	<u>4,000</u>	<u>4,000</u>
Total capital assets depreciated	<u>\$ 1,303,260</u>	<u>\$ 8,301,903</u>
Less: accumulated depreciation for		
Land improvements	\$ 401,785	\$ 607,657
Buildings	9,450	12,600
Machinery and equipment infrastructure	<u>2,400</u>	<u>3,200</u>
Total accumulated depreciation	<u>\$ 413,635</u>	<u>\$ 623,457</u>
Total Capital Assets, Depreciated, Net	<u><u>\$ 889,625</u></u>	<u><u>\$ 7,678,446</u></u>

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

**Long-Term Debt.** At the end of the current fiscal year, the Authority had total outstanding debt of \$5,954,436. Other liabilities and contingencies are described in the notes to the financial statements.

### Minnesota Valley Regional Railroad Authority's Outstanding Debt

	<u>2003</u>	<u>2004</u>
State loan	\$ 4,798,898	\$ 4,800,000
Shipper's loan	589,378	558,328
Operator loan	451,302	549,161
Bank loan	100,000	-
County loan	<u>-</u>	<u>46,947</u>
Total	<u><u>\$ 5,939,578</u></u>	<u><u>\$ 5,954,436</u></u>

The Authority received these interest-free rehabilitation loans under Minn. Stat. § 222.50 to provide assistance for improvement of rail service in the state. The state will provide 80 percent of the rehabilitation costs, up to \$4,800,000; the shippers will provide ten percent, up to \$600,000; and the Authority will provide ten percent, up to \$600,000, which the operator will provide in the form of in-kind work. Repayment to the operator will be 15 annual payments of \$40,000 each, to be funded from the Authority's annual Worldcom payment. The loans will be paid from the Authority's rents as received from the operator.

The loans must be repaid within 15 years commencing with the project completion. The Shipper's Association is to be repaid first, followed by the state.

The County loan is owed to Sibley County for services rendered and is to be repaid over a four-year period with a minimum payment of \$11,737 per year.

### **Economic Factors and Next Year's Budgets**

During 2005, the Authority will be receiving an additional \$2,000,000 in federal grant dollars for continued rehabilitation of the track from Morton west to Hanley Falls. This work is tentatively scheduled for early fall, depending on when the funding comes through to the State of Minnesota.

Minnesota Prairie Line recently negotiated with Union Pacific and, as of July 1, will be able to ship to the East Coast and receive better rates for the shippers. For 2006, the Authority is pursuing additional funding from both the federal and state governments for \$5,000,000 for further rehabilitation of the rail line from Gibbon/Winthrop east to Norwood Young America. Heartland Corn Products will be expanding from 35 million to 100 million capacity for ethanol production. This will result in the need for 35 mph unit trains for both inbound and outbound movement of commodities to their facility. This \$5,000,000 grant appropriation request from the federal level will require a 20 percent match, which is being requested in the 2006 preliminary state bonding bill request.

The Authority, in conjunction with Region 9 and Twin Cities Western, is conducting a marketing feasibility study to determine and identify additional non-ag shippers that could use the rail line if the track had designated transloading sites along its 97 miles. This study was just commissioned in May and will be completed by November 2005.

### **Requests for Information**

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

## **BASIC FINANCIAL STATEMENTS**

This page was left blank intentionally.

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

**EXHIBIT 1**

**STATEMENT OF NET ASSETS AND  
GOVERNMENTAL FUND BALANCE SHEET  
DECEMBER 31, 2004**

	<b>General Fund</b>	<b>Adjustments (Note 2.A.)</b>	<b>Governmental Activities</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 49,350	\$ -	\$ 49,350
Accounts receivable	6,240	-	6,240
Accrued interest receivable	2	-	2
Due from other governments	96,605	-	96,605
Capital assets			
Non-depreciable	-	2,494,142	2,494,142
Depreciable (net)	-	7,678,446	7,678,446
	<b>\$ 152,197</b>	<b>\$ 10,172,588</b>	<b>\$ 10,324,785</b>
<b><u>Liabilities</u></b>			
Current liabilities			
Accounts payable	\$ 1,056	\$ -	\$ 1,056
Contracts payable	120,605	-	120,605
Due to other governments	967	-	967
Long-term liabilities			
Due within one year	-	51,737	51,737
Due in more than one year	-	5,902,699	5,902,699
	<b>\$ 122,628</b>	<b>\$ 5,954,436</b>	<b>\$ 6,077,064</b>
<b><u>Fund Balance/Net Assets</u></b>			
Fund Balance			
Unreserved			
Undesignated	29,569	\$ (29,569)	
	<b>\$ 152,197</b>		
Net Assets			
Invested in capital assets		\$ 4,265,099	\$ 4,265,099
Unrestricted		(17,378)	(17,378)
		<b>\$ 4,247,721</b>	<b>\$ 4,247,721</b>
<b>Reconciliation of the Governmental Fund Balance to Net Assets</b>			
<b>Fund Balance - Governmental Fund</b>			\$ 29,569
Capital assets are reported on the Statement of Net Assets but not in the Fund Balance Sheet.			10,172,588
Long-term liabilities are reported on the Statement of Net Assets but not in the Fund Balance Sheet.			(5,954,436)
<b>Net Assets - Governmental Activities</b>			<b>\$ 4,247,721</b>

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

**EXHIBIT 2**

**STATEMENT OF ACTIVITIES AND  
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<b>General Fund</b>	<b>Adjustments (Note 2.B.)</b>	<b>Governmental Activities</b>
<b>Revenues</b>			
Intergovernmental	\$ 1,950,430	\$ -	\$ 1,950,430
Charges for services	37,290	-	37,290
Investment earnings	257	-	257
Miscellaneous	38,612	-	38,612
<b>Total Revenues</b>	<b>\$ 2,026,589</b>	<b>\$ -</b>	<b>\$ 2,026,589</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
<b>Economic development</b>			
Administration	\$ 38,577	\$ -	\$ 38,577
Rehabilitation	1,957,528	(1,577,818)	379,710
Transportation	93,820	-	93,820
<b>Debt service</b>			
Principal retirement	131,050	(131,050)	-
Interest	1,666	-	1,666
<b>Total Expenditures/Expenses</b>	<b>\$ 2,222,641</b>	<b>\$ (1,708,868)</b>	<b>\$ 513,773</b>
<b>Revenues Over (Under) Expenditures</b>	<b>\$ (196,052)</b>	<b>\$ 1,708,868</b>	<b>\$ 1,512,816</b>
<b>Other Financing Sources (Uses)</b>			
Proceeds from loans	145,908	(145,908)	-
<b>Change in Fund Balance/Net Assets</b>	<b>\$ (50,144)</b>	<b>\$ 1,562,960</b>	<b>\$ 1,512,816</b>
<b>Fund Balance/Net Assets - January 1</b>	<b>79,713</b>	<b>2,655,192</b>	<b>2,734,905</b>
<b>Fund Balance/Net Assets - December 31</b>	<b>\$ 29,569</b>	<b>\$ 4,218,152</b>	<b>\$ 4,247,721</b>
<b>Reconciliation of the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities</b>			
<b>Net change in fund balance</b>			<b>\$ (50,144)</b>
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The adjustment is the amount by which capital outlay exceeded depreciation expense in the current period.			1,577,818
Incurring long-term debt provides current financial resources to governmental funds, while the repayment of principal on long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net assets. The adjustment is the difference between new debt issued and payments on debt.			(14,858)
<b>Change in Net Assets of Governmental Activities</b>			<b>\$ 1,512,816</b>

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

**EXHIBIT 3**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGETARY COMPARISON  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ 1,987,000	\$ 1,987,000	\$ 1,950,430	\$ (36,570)
Charges for services	50,000	50,000	37,290	(12,710)
Interest on investments	-	-	257	257
Miscellaneous	64,000	64,000	38,612	(25,388)
<b>Total Revenues</b>	<b>\$ 2,101,000</b>	<b>\$ 2,101,000</b>	<b>\$ 2,026,589</b>	<b>\$ (74,411)</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Economic development</b>				
Administration	\$ 33,900	\$ 33,900	\$ 38,577	\$ (4,677)
Rehabilitation	1,987,000	1,987,000	1,957,528	29,472
Transportation	500	500	93,820	(93,320)
<b>Debt service</b>				
Principal retirement	11,700	11,700	131,050	(119,350)
Interest	-	-	1,666	(1,666)
<b>Total Expenditures</b>	<b>\$ 2,033,100</b>	<b>\$ 2,033,100</b>	<b>\$ 2,222,641</b>	<b>\$ (189,541)</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ 67,900</b>	<b>\$ 67,900</b>	<b>\$ (196,052)</b>	<b>\$ (263,952)</b>
<b>Other Financing Sources (Uses)</b>				
Loan proceeds	-	-	145,908	145,908
<b>Change in Fund Balance</b>	<b>\$ 67,900</b>	<b>\$ 67,900</b>	<b>\$ (50,144)</b>	<b>\$ (118,044)</b>
<b>Fund Balance - January 1</b>	<b>79,713</b>	<b>79,713</b>	<b>79,713</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 147,613</b>	<b>\$ 147,613</b>	<b>\$ 29,569</b>	<b>\$ (118,044)</b>

This page was left blank intentionally.

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

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

---

1. Summary of Significant Accounting Policies

The Minnesota Valley Regional Railroad Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Minnesota Valley Regional Railroad are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. The significant changes in the statement include the following:

- A Management's Discussion and Analysis section providing an analysis of the Minnesota Valley Regional Railroad Authority's overall financial position and results of operations; and
- Financial statements prepared using full accrual accounting for all of the Minnesota Valley Regional Railroad Authority's activities.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The Minnesota Valley Regional Railroad Authority has elected to implement all provisions of the statement in the current year.

A. Financial Reporting Entity

The Minnesota Valley Regional Railroad Authority was established June 21, 1982, under the Regional Railroad Authorities Act, Minn. Stat. § 398A.03. It is governed by a board composed of one member from the Boards of Commissioners of Carver County, Redwood County, Renville County, Sibley County, and Yellow Medicine County, and a representative from the Shipper's Association. The Authority is organized with a chair, a vice chair, and a secretary/treasurer.

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

---

---

1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

Basic financial statements include information on the Authority's activities as a whole and information on the individual fund of the Authority. These separate presentations are reported in different columns on Exhibits 1 and 2. Each of the exhibits starts with a column of information based on activities of the General Fund and reconciles it to a column that reports the "governmental activities" of the Authority as a whole.

The governmental activities columns are reported on the full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Authority's net assets are reported in two parts: invested in capital assets, net of related debt, and unrestricted net assets. The statement of activities demonstrates the degree to which the expenses of the Authority are offset by revenues.

The balance sheet and statement of revenues, expenditures, and changes in fund balance for the General Fund are presented on the modified accrual basis and report current financial resources.

C. Measurement Focus and Basis of Accounting

The governmental activities are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund 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 Railroad Authority considers all revenues to be *available* if they are collected within 60 days after the end of the current period. Charges for services and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

---

---

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

When both restricted and unrestricted resources are available for use, it is the Minnesota Valley Regional Railroad Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the Minnesota Valley Regional Railroad Authority:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

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

---

1. Summary of Significant Accounting Policies

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

2. Receivables

The financial statements for the Authority contain no allowance for uncollectible accounts. Uncollectible amounts due for receivables are recognized as bad debts at the time information becomes available that would indicate the uncollectibility of the particular receivable. These amounts are not considered to be material in relation to the financial position or operations of the fund.

3. Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the statement of net assets. Such assets are recorded at historical cost or fair value if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

Assets	Years
Land improvements and buildings	20 to 40
Machinery and equipment	5

4. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

5. Long-Term Liabilities

Long-term liabilities are not reported in the fund. The General Fund reports only liabilities that are expected to be financed with available, spendable financial resources. The statement of net assets reports long-term liabilities of the governmental activities.

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

---

---

1. Summary of Significant Accounting Policies

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

6. Fund Equity

The fund financial statements report reservations of fund balance for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The Authority reported no reservations or designations for the year ended December 31, 2004.

7. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Reconciliation for Government-Wide and Fund Financial Statements

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Governmental Activities Statement of Net Assets

Exhibit 1 includes a reconciliation between fund balance and net assets as reported in the General Fund and governmental activities columns as of December 31, 2004. The adjustments are as follows:

	<u>Adjustments</u>
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	\$ 10,172,588
Long-term liabilities in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental fund.	<u>(5,954,436)</u>
Net Adjustment to Fund Balance to Arrive at Net Assets	<u>\$ 4,218,152</u>

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

---

2. Reconciliation for Government-Wide and Fund Financial Statements (Continued)

B. Explanation of Certain Differences Between the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance and the Governmental Activities Statement of Activities

Exhibit 2 includes a reconciliation between net changes in fund balance of the General Fund and the changes in net assets of the governmental activities for the year ended December 31, 2004. The following table shows the necessary adjustments:

	Adjustments
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The adjustment is the amount by which capital outlay exceeded depreciation expense in the current period.	
Capital outlay	\$ 1,787,640
Depreciation expense	(209,822)
Adjustment for Capital Assets	\$ 1,577,818
Incurring long-term debt provides current financial resources to governmental funds, while the repayment of principal on long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net assets. The adjustment is the difference between new debt issued and payments on debt.	
Long-term debt incurred	\$ 145,908
Payments on long-term debt	(131,050)
Adjustment for Long-Term Debt	\$ 14,858

3. Detailed Notes

A. Assets

1. Deposits and Investments

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Minnesota Valley Regional Railroad Authority to deposit its cash and to invest in certificates of deposit in financial institutions designated by the Authority.

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

---

3. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

At December 31, 2004, the carrying amount of the Authority's deposits totaled \$49,350. The bank balance deposit amount was \$50,914. Minnesota statutes require that all Authority deposits be covered by insurance, surety bond, or collateral.

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004.

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the Authority or its agent in the Authority's name	\$ 50,914
Collateralized with securities held by the pledging financial institution's agent in the Authority's name	-
Total covered deposits	\$ 50,914
Uncollateralized	-
Total	\$ 50,914

2. Due From Other Governments

The following was due from other governments at December 31, 2004:

Federal grants	<u>\$ 96,605</u>
----------------	------------------

3. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

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

3. Detailed Notes

A. Assets

3. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not depreciated				
Land	\$ 591,000	\$ -	\$ -	\$ 591,000
Construction in progress	7,114,145	1,787,640	6,998,643	1,903,142
<b>Total capital assets not depreciated</b>	<b>\$ 7,705,145</b>	<b>\$ 1,787,640</b>	<b>\$ 6,998,643</b>	<b>\$ 2,494,142</b>
Capital assets depreciated				
Land improvements	\$ 1,236,260	\$ 6,998,643	\$ -	\$ 8,234,903
Buildings	63,000	-	-	63,000
Machinery and equipment	4,000	-	-	4,000
<b>Total capital assets depreciated</b>	<b>\$ 1,303,260</b>	<b>\$ 6,998,643</b>	<b>\$ -</b>	<b>\$ 8,301,903</b>
Less: accumulated depreciation for				
Land improvements	\$ 401,785	\$ 205,872	\$ -	\$ 607,657
Buildings	9,450	3,150	-	12,600
Machinery and equipment	2,400	800	-	3,200
<b>Total accumulated depreciation</b>	<b>\$ 413,635</b>	<b>\$ 209,822</b>	<b>\$ -</b>	<b>\$ 623,457</b>
<b>Total capital assets, depreciated, net</b>	<b>\$ 889,625</b>	<b>\$ 6,788,821</b>	<b>\$ -</b>	<b>\$ 7,678,446</b>
Governmental Activities Capital Assets, Net	<u>\$ 8,594,770</u>	<u>\$ 8,576,461</u>	<u>\$ 6,998,643</u>	<u>\$ 10,172,588</u>

Depreciation expense was charged to economic development for the year ended December 31, 2004.

4. Receivables

The Authority did not have any receivables scheduled to be collected beyond one year as of December 31, 2004.

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

---

3. Detailed Notes (Continued)

B. Liabilities

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
State loan	\$ 4,798,898	\$ 1,102	\$ -	\$ 4,800,000	\$ - *
Shipper's loan	589,378	-	31,050	558,328	*
Operator loan	451,302	97,859	-	549,161	40,000
Bank loan	100,000	-	100,000	-	-
County loan	-	46,947	-	46,947	11,737
Total	<u>\$ 5,939,578</u>	<u>\$ 145,908</u>	<u>\$ 131,050</u>	<u>\$ 5,954,436</u>	<u>\$ 51,737</u>

The Authority received these rehabilitation interest-free loans under Minn. Stat. § 222.50 to provide assistance for improvement of rail service in the state. The state will provide 80 percent of the rehabilitation costs, up to \$4,800,000; the shippers will provide ten percent, up to \$600,000; and the Authority will provide ten percent, up to \$600,000, which the operator will provide in the form of in-kind work. Repayment to the operator will be 15 annual payments of \$40,000 each, to be funded from the Authority's annual Worldcom payment. The loans will be paid from the Authority's rents as received from the operator. Thus, the amount due within one year cannot be determined. The state's portion is secured by a mortgage on the Authority's property.

\*The state and shipper's loans must be repaid within 15 years, commencing with the project completion. The Shipper's Association is to be repaid first, followed by the state. Until project completion, no payment schedule has been set up.

The county loan is owed to Sibley County for services rendered and is to be repaid over a four-year period with a minimum payment of \$11,737 per year.

Annual debt service requirements to maturity for the operator loan and the county loan are:

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

---

3. Detailed Notes

B. Liabilities

Changes in Long-Term Liabilities (Continued)

	Operator	County
2005	\$ 40,000	\$ 11,737
2006	40,000	11,737
2007	40,000	11,737
2008	40,000	11,736
2009	40,000	-
2010-2014	200,000	-
2015-2019	200,000	-
	\$ 600,000	\$ 46,947
Total	\$ 600,000	\$ 46,947

4. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and natural disasters. To manage these risks, the Authority has joined the Minnesota Counties Insurance Trust. The Authority retains risk for the deductible portions of the insurance policies. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

**SUPPLEMENTARY INFORMATION**

This page was left blank intentionally.

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

*Schedule 1*

**SCHEDULE OF INTERGOVERNMENTAL REVENUE  
FOR THE YEAR ENDED DECEMBER 31, 2004**

<b>Payments</b>	
Local	\$ <u>5,000</u>
<b>Grants</b>	
<b>State</b>	
Minnesota Department of Public Safety	\$ <u>83,816</u>
<b>Federal</b>	
Department of Transportation	\$ 1,787,640
Public Safety	<u>73,974</u>
<b>Total Federal</b>	<u>\$ 1,861,614</u>
<b>Total State and Federal Grants</b>	<u>\$ 1,945,430</u>
<b>Total Intergovernmental Revenue</b>	<u>\$ <u>1,950,430</u></u>

This page was left blank intentionally.

**MANAGEMENT AND COMPLIANCE SECTION**

This page was left blank intentionally.



This page was left blank intentionally.

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

**Schedule 2**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**I. SUMMARY OF AUDITOR'S RESULTS**

- A. Our report expresses an unqualified opinion on the financial statements of the Minnesota Valley Regional Railroad Authority.
- B. A reportable condition in internal control was disclosed by the audit of financial statements of the Minnesota Valley Regional Railroad Authority and is reported in the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." The condition is not a material weakness.
- C. No instances of noncompliance material to the financial statements of the Minnesota Valley Regional Railroad Authority were disclosed during the audit.
- D. No matters involving internal control over compliance relating to the audit of the major federal award program were reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program for the Minnesota Valley Regional Railroad Authority expresses an unqualified opinion.
- F. No findings relative to the major federal award program for the Minnesota Valley Regional Railroad Authority were reported as required by Section 510(a) of OMB Circular A-133.
- G. The major program is:

Railroad Transportation	CFDA #20.XXX
-------------------------	--------------
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. The Minnesota Valley Regional Railroad Authority was not determined to be a low-risk auditee.

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

00-1 Internal Accounting Controls

Due to the Minnesota Valley Regional Railroad Authority's size, proper segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Although this is not unusual in small entities, the Authority 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 internal control point of view.

We recommend that the Authority be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by management.

Client's Response:

*The Minnesota Valley Regional Railroad Authority (MVRRA) Treasurer along with the full board reviews and approves all payments and financial reports at their regular monthly meeting. All billings and checks are generated by staff with Quickbooks on a monthly basis, and the Treasurer and Vice-Chair sign all checks for payment so the duties are segregated. All records and documents are stored at the RADC Office on behalf of MVRRA. MVRRA has a year-to-year contract for service with the RADC as their Administrator. This arrangement began formally in March of 2004 and includes minutes, agendas, correspondence, telephone as well as all financial duties including monthly accounts payable and receivables, deposits, and the payments of the federal rehab dollars to vendors on approval of the State of MN DOT.*

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

None.

**IV. OTHER FINDINGS AND RECOMMENDATIONS**

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

01-2 Final Contract Payment

Final payment was made on the contract for emergency repairs before Form IC-134, which documents employee withholdings, was received from the contractor. These contracts involved the employment of individuals for wages by the contractors.

Minn. Stat. § 290.97 states that, “[n]o . . . 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.” This refers to the withholding of income taxes by the contractor or subcontractor.

We recommend that the Authority comply with Minn. Stat. § 290.97.

Client’s Response:

*The MVRRA will require an IC-134 on all future matters. Staff was aware of the need for IC-134 on the federal grant projects, but was not aware that it was also needed for the emergency bridge repair as staff was unaware of the Statute which requires this. It was not brought to staff’s attention by anyone other than DOT staff for the rehab project.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Performance and Payment Bonds (02-5)**

The Authority let a contract for the rehabilitation project in excess of \$75,000 but did not require or receive performance or payment bonds.

**Resolution**

The Authority complies with Minn. Stat. § 574.26 which states that a contract in excess of \$75,000 is not valid unless the contractor gives both a performance and a payment bond in an amount not less than the contract price.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEMS RESOLVED

**Travel Policy (01-3)**

The Authority did not have a written travel policy.

**Resolution**

The Authority approved a written travel policy at their meeting in May 2004.

**Capital Asset Accounting System (03-1)**

Governmental Accounting Standards Board (GASB) Statement 34 requires governments to include capital assets, including infrastructure assets, on the statement of net assets and to report depreciation expense for those assets on the statement of activities. We recommended the Authority comply with Statement 34 by establishing capital asset policies and centralized records.

**Resolution**

To comply with GASB Statement 34, the Authority established accounting policies for capital assets, including capitalization thresholds, useful lives, and the designation of specific general ledger accounting codes to record the purchases and construction costs of capital assets.



This page was left blank intentionally.



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

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

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

PATRICIA ANDERSON  
STATE AUDITOR

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Commissioners  
Minnesota Valley Regional Railroad Authority

We have audited the financial statements of the Minnesota Valley Regional Railroad Authority as of and for the year ended December 31, 2004, and have issued our report thereon dated June 10, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Minnesota Valley Regional Railroad Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 00-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the

internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Minnesota Valley Regional Railroad Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, the Minnesota Valley Regional Railroad Authority complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 01-2.

This report is intended solely for the information and use of the Board of Commissioners and management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Pat Anderson

PATRICIA ANDERSON  
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: June 10, 2005



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

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

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

PATRICIA ANDERSON  
STATE AUDITOR

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Commissioners  
Minnesota Valley Regional Railroad Authority

Compliance

We have audited the compliance of the Minnesota Valley Regional Railroad Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2004. The Minnesota Valley Regional Railroad Authority's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Minnesota Valley Regional Railroad Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Minnesota Valley Regional Railroad Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2004.

## Internal Control Over Compliance

The management of the Minnesota Valley Regional Railroad Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

## Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Minnesota Valley Regional Railroad Authority as of and for the year ended December 31, 2004, and have issued our report thereon dated June 10, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Commissioners, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: June 10, 2005

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

*Schedule 3*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Transportation Railroad Transportation	20.XXX	\$ 1,787,640
<b>U.S. Department of Homeland Security</b>		
Passed Through Minnesota Department of Public Safety Public Assistance Grants	97.036	<u>73,974</u>
<b>Total Federal Awards</b>		<b><u>\$ 1,861,614</u></b>

Notes to Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by the Minnesota Valley Regional Railroad Authority. The Authority's reporting entity is defined in Note 1.A. to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. During 2004, the Authority did not pass any federal money to subrecipients.
4. Pass-through grant numbers were not assigned by the pass-through agencies.
5. The CFDA number for the Railroad Transportation grant was not available.