

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

Minnesota Valley Regional Rail Authority Redwood Falls, Minnesota

Years Ended December 31, 2022 and 2023

Minnesota Valley Regional Rail Authority

Redwood Falls, Minnesota

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Introductory Section

**Minnesota Valley Regional Rail Authority
Redwood Falls, Minnesota**

Organization
2022

Name	Office	Term Expires
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
McKenzie Taylor	Administrator	Appointed Yearly
Aaron Walton	Legal Counsel	Appointed Yearly

**Minnesota Valley Regional Rail Authority
Redwood Falls, Minnesota**

**Organization
2023**

Name	Office	Term Expires
Steve Saxton	Chair	Appointed Yearly
Tom Workman	Vice Chair	Appointed Yearly
Dennis Groebner	Secretary/Treasurer	Appointed Yearly
Ron Antony	Member	Appointed Yearly
John Robinson	Member	Appointed Yearly
Chuck Steffl	Member	Appointed Yearly
McKenzie Taylor	Administrator	Appointed Yearly
Aaron Walton	Legal Counsel	Appointed Yearly

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, 2022 and 2023, 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, 2022 and 2023, and the respective changes in financial position for the year 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

May 22, 2024

/s/Chad Struss

Chad Struss, CPA
Deputy State Auditor

Management's Discussion and Analysis

Minnesota Valley Regional Rail Authority

Redwood Falls, Minnesota

Management's Discussion and Analysis December 31, 2022 AND 2023 (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, 2022 and 2023. 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 2022, the assets of the Rail Authority exceed its liabilities by \$39,889,022 (net position), of which \$38,510,850 is the net investment in capital assets (Exhibit 1), leaving unrestricted net position of \$1,378,172.
- In 2023, the assets of the Rail Authority exceeded its liabilities by \$40,157,328 (net position), of which \$38,929,452 is the net investment in capital assets (Exhibit 3), leaving unrestricted net position of \$1,227,876.
- The Rail Authority's total net position increased \$8,541,395, or 27.25 percent, in 2022. The Rail Authority's total net position increased \$268,306, or 0.67 percent, in 2023.

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 17 through 26 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 2021, 2022 revenues for the Rail Authority’s General Fund increased by \$8,160,066 and expenditures increased by \$8,447,267, primarily due to the large rehabilitation projects. As compared to 2022, 2023 revenues for the Rail Authority’s General Fund decreased by \$8,242,886 and expenditures decreased by \$9,025,275, due to the minimal work completed during 2023 on improvement projects.

The General Fund balance decreased by \$254,231 from 2021 to 2022, for a total unassigned fund balance of \$691,688 as of December 31, 2022. The General Fund balance increased by \$528,158 from 2022 to 2023, for a total unassigned fund balance of \$1,219,846.

The Minnesota Valley Regional Rail Authority adopts an annually appropriated budget for its General Fund. A budgetary comparison schedule for 2022 and for 2023 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 \$39,889,022 at the close of 2022, and by \$40,157,328 at the close of 2023. The largest portion of the Rail Authority’s net position reflects the Rail Authority’s investment in capital assets (for example, land, buildings, and land improvements – infrastructure, such as the rail bed). However, it should be noted that these assets are not available for future spending. Comparative data with 2021 is presented.

	2021	2022	2023
Assets			
Current and other assets	\$ 970,758	\$ 1,458,929	\$ 1,233,627
Capital assets	30,401,708	39,197,334	38,937,482
Total Assets	<u>\$ 31,372,466</u>	<u>\$ 40,656,263</u>	<u>\$ 40,171,109</u>
Liabilities			
Current liabilities	<u>\$ 24,839</u>	<u>\$ 767,241</u>	<u>\$ 13,781</u>
Net Position			
Net investment in capital assets	\$ 30,392,096	\$ 38,510,850	\$ 38,929,452
Unrestricted	955,531	1,378,172	1,227,876
Total Net Position	<u>\$ 31,347,627</u>	<u>\$ 39,889,022</u>	<u>\$ 40,157,328</u>

Governmental Activities

The Minnesota Valley Regional Rail Authority’s activities increased the Rail Authority’s net position during 2022 by \$8,541,395, representing a 27.25 percent increase, and increased net position during 2023 by \$268,306, representing a 0.67 percent increase, primarily because of change in the Rail Authority’s state bonding funds used

for rehabilitation of the rail. Key elements in these increases in net position are as follows for 2022, 2023, with comparative data for 2021.

	2021	2022	2023
Revenues			
Licenses and permits	\$ 232,823	\$ 220,145	\$ 235,850
Intergovernmental	665,550	8,851,424	564,714
Charges for services	146,220	186,540	182,340
Investment earnings	190	299	10,719
Miscellaneous	106,727	70,668	92,567
Capital Contributions	293,685	-	-
Total Revenues	\$ 1,445,195	\$ 9,329,076	\$ 1,086,190
Expenses			
Economic development	744,096	787,681	817,884
Change in Net Position	\$ 701,099	\$ 8,541,395	\$ 268,306
Net Position – January 1	30,646,528	31,347,627	39,889,022
Net Position – December 31	\$ 31,347,627	\$ 39,889,022	\$ 40,157,328

General Fund Budgetary Highlights

There were no differences between the original General Fund expenditure budget and the final budget in 2022 and 2023.

Budgeted General Fund 2022 revenues exceeded actual revenues by \$492,808, primarily due to less intergovernmental revenues recognized than anticipated, which were offset by additional car storage rental income, and additional rail car rental income. Actual General Fund 2023 revenues exceeded budgeted revenues by \$644,280, primarily due to more intergovernmental revenues recognized than anticipated, additional car storage rental income, and additional rail car rental income.

Budgeted 2022 expenditures exceeded actual expenditures by \$176,377. The expenditures were less than expected due to progress on the \$7.9 million rail relay project not being completed by December 31, 2022. Budgeted 2023 expenditures exceeded actual expenditures by \$12,023.

Capital Assets and Debt Administration

Capital Assets

The Minnesota Valley Regional Rail Authority's capital assets (net of accumulated depreciation) at December 31, 2022 and 2023, totaled \$39,197,334 and \$38,937,482, respectively. This investment in capital assets includes land improvements and a building. The Rail Authority's 2022 investment in land improvements increased \$8,795,626 from the previous year due to the state bonding projects for rehabilitation of the rail. The Rail Authority's 2023 investment in land improvements decreased \$259,852 due to depreciation and minimal rehabilitation work completed.

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

	2021	2022	2023
Capital assets not depreciated			
Land	\$ 654,890	\$ 654,890	\$ 654,890
Construction in progress	606,453	8,660,950	36,718
Total capital assets not depreciated	<u>\$ 1,261,343</u>	<u>\$ 9,315,840</u>	<u>\$ 691,608</u>
Capital assets depreciated			
Land improvements – infrastructure	\$ 37,597,338	\$ 38,851,187	\$ 47,856,940
Buildings	63,000	63,000	63,000
Total capital assets depreciated	<u>\$ 37,660,338</u>	<u>\$ 38,914,187</u>	<u>\$ 47,919,940</u>
Less: accumulated depreciation for			
Land improvements – infrastructure	\$ 8,456,973	\$ 8,969,693	\$ 9,611,066
Buildings	63,000	63,000	63,000
Total accumulated depreciation	<u>\$ 8,519,973</u>	<u>\$ 9,032,693</u>	<u>\$ 9,674,066</u>
Total capital assets depreciated, net	<u>\$ 29,140,365</u>	<u>\$ 29,881,494</u>	<u>\$ 38,245,874</u>
Net Capital Assets	<u>\$ 30,401,708</u>	<u>\$ 39,197,334</u>	<u>\$ 38,937,482</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 2022 and 2023, 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

In 2023, the Rail Authority was awarded a \$322,145 Minnesota Rail Service Improvement (MRSI) state grant for bridge work on the Minnesota River Bridge. The Rail Authority share of the project is \$327,855.

In 2023, the Rail Authority was awarded a \$520,000 Consolidated Rail Infrastructure and Safety Improvements (CRISI) federal grant. The Rail Authority share of the project is \$130,000. The grant will be used to prepare the environmental analysis of the remainder of the railroad that needs to be rehabilitated, including the Franklin Hill track realignment.

In the 2022 legislative session, the Rail Authority received \$2,000,000 in state bonding funds. A portion of these funds will be used to cover costs of the Minnesota River bridge and to reinforce the Sulfur Lake bridge. The Rail Authority has not determined where the remaining funds will be spent.

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 McKenzie Taylor, 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
Statement of Net Position of Governmental Activities
December 31, 2022**

	<u>General Fund Balance Sheet</u>	<u>Adjustments</u>	<u>Governmental Activities Statement of Net Position</u>
<u>Assets</u>			
Current assets			
Cash and investments	\$ 411,461	\$ -	\$ 411,461
Accounts receivable – net	75,433	-	75,433
Due from other governments	972,035	-	972,035
Capital assets			
Non-depreciable	-	9,315,840	9,315,840
Depreciable – net	-	29,881,494	29,881,494
Total Assets	\$ 1,458,929	\$ 39,197,334	\$ 40,656,263
<u>Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position</u>			
Liabilities			
Current liabilities			
Accounts payable	\$ 24,610	\$ -	\$ 24,610
Contracts payable	720,184	-	720,184
Due to other governments	22,447	-	22,447
Total Liabilities	\$ 767,241	\$ -	\$ 767,241
Fund Balance			
Unassigned	\$ 691,688	\$ (691,688)	
Net Position			
Net investment in capital assets		\$ 38,510,850	\$ 38,510,850
Unrestricted		1,378,172	1,378,172
Total Net Position		\$ 39,889,022	\$ 39,889,022
Total Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position	\$ 1,458,929	\$ 39,197,334	\$ 40,656,263

**Minnesota Valley Regional Rail Authority
Redwood Falls, Minnesota**

Exhibit 1
(Continued)

**General Fund Balance Sheet and
Statement of Net Position of Governmental Activities
December 31, 2022**

Reconciliation of the General Fund Balance to Net Position

Fund Balance – General Fund	\$ 691,688
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Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are reported on the Statement of Net Position but not on the General Fund Balance Sheet.

39,197,334

Net Position – Governmental Activities

\$ 39,889,022

**Minnesota Valley Regional Rail Authority
Redwood Falls, Minnesota**

Exhibit 2

**General Fund Revenues, Expenditures, and Changes in Fund Balance and
Statement of Activities of Governmental Activities
For the Year Ended December 31, 2022**

	General Fund Revenues, Expenditures, and Changes in Fund Balance	Adjustments	Governmental Activities Statement of Activities
Revenues			
Licenses and permits	\$ 220,145	\$ -	\$ 220,145
Intergovernmental	8,851,424	-	8,851,424
Charges for services	186,540	-	186,540
Investment earnings	299	-	299
Miscellaneous	70,668	-	70,668
Total Revenues	\$ 9,329,076	\$ -	\$ 9,329,076
Expenditures/Expenses			
Current			
Economic development			
Administration	\$ 207,545	\$ -	\$ 207,545
Rehabilitation and improvements	9,354,462	(8,795,626)	558,836
Repairs and maintenance	21,300	-	21,300
Total Expenditures/Expenses	\$ 9,583,307	\$ (8,795,626)	\$ 787,681
Net Change in Fund Balance/Net Position	\$ (254,231)	\$ 8,795,626	\$ 8,541,395
Fund Balance/Net Position – January 1	945,919	30,401,708	31,347,627
Fund Balance/Net Position – December 31	\$ 691,688	\$ 39,197,334	\$ 39,889,022

**Minnesota Valley Regional Rail Authority
Redwood Falls, Minnesota**

Exhibit 2
(Continued)

**General Fund Revenues, Expenditures, and Changes in Fund Balance and
Statement of Activities of Governmental Activities
For the Year Ended December 31, 2022**

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

Change in Fund Balance	\$	(254,231)
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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	\$	9,308,346	
Current year depreciation		<u>(512,720)</u>	<u>8,795,626</u>
Change in Net Position of Governmental Activities	\$		<u>8,541,395</u>

**Minnesota Valley Regional Rail Authority
Redwood Falls, Minnesota**

Exhibit 3

**General Fund Balance Sheet and
Statement of Net Position of Governmental Activities
December 31, 2023**

	General Fund Balance Sheet	Adjustments	Governmental Activities Statement of Net Position
<u>Assets</u>			
Current assets			
Cash and investments	\$ 1,011,325	\$ -	\$ 1,011,325
Accounts receivable – net	101,564	-	101,564
Due from other governments	120,738	-	120,738
Capital assets			
Non-depreciable	-	691,608	691,608
Depreciable – net	-	38,245,874	38,245,874
Total Assets	\$ 1,233,627	\$ 38,937,482	\$ 40,171,109
 <u>Liabilities and Fund Balance/Net Position</u>			
Liabilities			
Current liabilities			
Accounts payable	\$ 5,751	\$ -	\$ 5,751
Contracts payable	8,030	-	8,030
Total Liabilities	\$ 13,781	\$ -	\$ 13,781
Fund Balance			
Unassigned	\$ 1,219,846	\$ (1,219,846)	
Net Position			
Net investment in capital assets		\$ 38,929,452	\$ 38,929,452
Unrestricted		1,227,876	1,227,876
Total Net Position		\$ 40,157,328	\$ 40,157,328
Total Liabilities and Fund Balance/Net Position	\$ 1,233,627	\$ 38,937,482	\$ 40,171,109
 Reconciliation of the General Fund Balance to Net Position			
Fund Balance – General Fund			\$ 1,219,846
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.			38,937,482
Net Position – Governmental Activities			\$ 40,157,328

**Minnesota Valley Regional Rail Authority
Redwood Falls, Minnesota**

Exhibit 4

**General Fund Revenues, Expenditures, and Changes in Fund Balance and
Statement of Activities of Governmental Activities
For the Year Ended December 31, 2023**

	General Fund Revenues, Expenditures, and Changes in Fund Balance	Adjustments	Governmental Activities Statement of Activities
Revenues			
Licenses and permits	\$ 235,850	\$ -	\$ 235,850
Intergovernmental	564,714	-	564,714
Charges for services	182,340	-	182,340
Investment earnings	10,719	-	10,719
Miscellaneous	92,567	-	92,567
	<u>1,086,190</u>	<u>-</u>	<u>1,086,190</u>
Total Revenues	\$ 1,086,190	\$ -	\$ 1,086,190
Expenditures/Expenses			
Current			
Economic development			
Administration	\$ 176,150	\$ -	\$ 176,150
Rehabilitation and improvements	348,182	259,852	608,034
Repairs and maintenance	33,700	-	33,700
	<u>558,032</u>	<u>259,852</u>	<u>817,884</u>
Total Expenditures/Expenses	\$ 558,032	\$ 259,852	\$ 817,884
Net Change in Fund Balance/Net Position	\$ 528,158	\$ (259,852)	\$ 268,306
Fund Balance/Net Position – January 1	691,688	39,197,334	39,889,022
Fund Balance/Net Position – December 31	\$ 1,219,846	\$ 38,937,482	\$ 40,157,328

**Minnesota Valley Regional Rail Authority
Redwood Falls, Minnesota**

Exhibit 4
(Continued)

**General Fund Revenues, Expenditures, and Changes in Fund Balance and
Statement of Activities of Governmental Activities
For the Year Ended December 31, 2023**

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

Change in Fund Balance	\$	528,158
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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	\$	381,521		
Current year depreciation		(641,373)		(259,852)
Change in Net Position of Governmental Activities				\$ 268,306

Minnesota Valley Regional Rail Authority

Redwood Falls, Minnesota

Notes to the Financial Statements

As of and for the Years Ended December 31, 2022, and 2023

Note 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, 2022 and 2023. 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.

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.

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 adjusts 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.

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.

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

Minnesota Valley Regional Rail Authority

Redwood Falls, Minnesota

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.

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

Deposits and Investments

The Rail Authority invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The investment in the pool is measured at the net asset value per share provided by the pool. Investment earnings for 2022 were \$299 and for 2023 were \$10,719.

Receivables

Accounts receivable are shown net of an allowance for uncollectible balances.

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, 2022 and 2023.

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:

Estimated Useful Lives of Capital Assets

<u>Assets</u>	<u>Years</u>
Land improvements – infrastructure	70
Buildings	25
Machinery and equipment	5

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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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net 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, 2022 and 2023.

In addition to liabilities, the statement of net 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. The Rail Authority has no items that qualify for reporting in this category for the years ended December 31, 2022 and 2023.

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, 2022 and 2023.

Classification of Net Position

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

- Net investment in capital assets – the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.
- Restricted net position – the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position – the amount of net position that does not meet the definition of restricted or net investment in capital assets.

Classification of Fund Balances

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:

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- 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.
- 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.

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.

Note 2 – Significant Violations of Finance Related Legal or Contractual Provisions

At December 30, 2022, the Rail Authority's deposits were under-collateralized by \$41,550, which is not in compliance with Minn. Stat. § 118A.03. Bank collateral will be obtained for future deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance.

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Note 3 – Detailed Notes

Assets and Deferred Outflows of Resources

Deposits and Investments

The following table presents the Rail Authority’s total deposits and investments the basic financial statements is as follows:

	Cash and Investment Balances	
	December 31, 2022	December 31, 2023
Checking	\$ 411,461	\$ 350,607
MAGIC Portfolio	-	660,718
Total Cash and Investments	\$ 411,461	\$ 1,011,325

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.

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 will minimize deposit custodial credit risk by obtaining collateral or bond for all the uninsured deposits. As of December 30, 2022, the Rail Authority had \$41,550 exposed to custodial credit risk and December 31, 2023, the Rail Authority’s deposits were not exposed to custodial credit risk.

Investments

The Rail Authority may invest in the following types of investments as authorized by Minn. Stat. §§ 118A.04 and 118A.05:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd. 6;

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- (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) time deposits fully insured by the Federal Deposit Insurance Corporation or 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.

As of December 31, 2022, the Rail Authority did not have investments. As of December 31, 2023, all the Rail Authority's investments, valued at \$660,718, were in the Minnesota Association of Governments Investing for Counties (MAGIC) Fund.

MAGIC is a local government investment pool which is quoted at a net asset value (NAV). The Rail Authority invests in this pool for the purpose of the joint investment of the Rail Authority's money with those of counties to enhance the investment earnings accruing to each member.

The MAGIC Portfolio is valued using amortized cost. Shares of the MAGIC Portfolio are available to be redeemed upon proper notice without restrictions under normal operating conditions. There are no limits to the number of redemptions that can be made as long as the Rail Authority has a sufficient number of shares to meet their redemption request. The Fund's Board of Trustees can suspend the right of withdrawal or postpone the date of payment if the Trustees determine that there is an emergency that makes the sale of a Portfolio's securities or determination of its net asset value not reasonably practical.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. It is the Rail Authority's policy to minimize exposure to interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; thereby, avoiding the need to sell securities in the open market, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools; and limiting the average maturity in accordance with the Rail Authority's cash requirements.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the Rail Authority's policy to invest only in securities that meet the ratings requirements set by state statute.

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Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. It is the Rail Authority's policy to minimize investment custodial credit risk by permitting brokers to hold investments only to the extent there is Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage available. Securities purchased in excess of available SIPC coverage are transferred to an approved third-party custodian. At December 31, 2023, none of the Rail Authority's investments were subject to custodial credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be caused by the Rail Authority's investment in a single issuer. It is the Rail Authority's policy to minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimal. As of December 31, 2023, all of the Rail Authority's investments were in the MAGIC Fund.

Receivables and Revenue

Receivables as of December 31, 2022

	Receivables	Less: Allowance for Uncollectible Accounts	Net Receivables
Accounts receivable	\$ 98,363	\$ (22,930)	\$ 75,433
Due from other governments	972,035	-	972,035
Total	\$ 1,070,398	\$ (22,930)	\$ 1,047,468

Receivables as of December 31, 2023

	Receivables	Less: Allowance for Uncollectible Accounts	Net Receivables
Accounts receivable	\$ 125,638	\$ (24,074)	\$ 101,564
Due from other governments	120,738	-	120,738
Total	\$ 246,376	\$ (24,074)	\$ 222,302

Net receivables 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.

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The Rail Authority entered into a lease agreement as a lessor as of January 15, 2001, with Minnesota Prairie Line for the use of the rail line owned by MVRRA. Variable quarterly payments are made based on number of loaded cars transported over the rail line. Revenues from this lease were \$186,540 in 2022 and \$182,340 in 2023.

Capital Assets

Changes in Capital Assets for the Year Ended December 31, 2022

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 654,890	\$ -	\$ -	\$ 654,890
Construction in progress	606,453	8,141,190	86,693	8,660,950
Total capital assets not depreciated	<u>\$ 1,261,343</u>	<u>\$ 8,141,190</u>	<u>\$ 86,693</u>	<u>\$ 9,315,840</u>
Capital assets depreciated				
Land improvements – infrastructure	\$ 37,597,338	\$ 1,253,849	\$ -	\$ 38,851,187
Buildings	63,000	-	-	63,000
Total capital assets depreciated	<u>\$ 37,660,338</u>	<u>\$ 1,253,849</u>	<u>\$ -</u>	<u>\$ 38,914,187</u>
Less: accumulated depreciation for				
Land improvements – infrastructure	\$ 8,456,973	\$ 512,720	\$ -	\$ 8,969,693
Buildings	63,000	-	-	63,000
Total accumulated depreciation	<u>\$ 8,519,973</u>	<u>\$ 512,720</u>	<u>\$ -</u>	<u>\$ 9,032,693</u>
Total capital assets depreciated, net	<u>\$ 29,140,365</u>	<u>\$ 741,129</u>	<u>\$ -</u>	<u>\$ 29,881,494</u>
Net Capital Asset	<u>\$ 30,401,708</u>	<u>\$ 8,882,319</u>	<u>\$ 86,693</u>	<u>\$ 39,197,334</u>

Depreciation expense of \$512,720 was charged to the Rail Authority's economic development function for the year ended December 31, 2022.

Construction in progress as December 31, 2022, consists of the Franklin Hill realignment project, Crow Creek bridge replacement, and the rail relay project from MP 88.3 to 114.0.

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Changes in Capital Assets for the Year Ended December 31, 2023

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 654,890	\$ -	\$ -	\$ 654,890
Construction in progress	8,660,950	25,555	8,649,787	36,718
Total capital assets not depreciated	\$ 9,315,840	\$ 25,555	\$ 8,649,787	\$ 691,608
Capital assets depreciated				
Land improvements – infrastructure	\$ 38,851,187	\$ 9,005,753	\$ -	\$ 47,856,940
Buildings	63,000	-	-	63,000
Total capital assets depreciated	\$ 38,914,187	\$ 9,005,753	\$ -	\$ 47,919,940
Less: accumulated depreciation for				
Land improvements – infrastructure	\$ 8,969,693	\$ 641,373	\$ -	\$ 9,611,066
Buildings	63,000	-	-	63,000
Total accumulated depreciation	\$ 9,032,693	\$ 641,373	\$ -	\$ 9,674,066
Total capital assets depreciated, net	\$ 29,881,494	\$ 8,364,380	\$ -	\$ 38,245,874
Net Capital Asset	\$ 39,197,334	\$ 8,389,935	\$ 8,649,787	\$ 38,937,482

Depreciation expense of \$641,373 was charged to the Rail Authority’s economic development function for the year ended December 31, 2023.

Construction in progress as December 31, 2023, consists of the Franklin Hill realignment project, MN River bridge design, and Sulfur Lake bridge design.

Liabilities and Deferred Inflows of Resources

Construction and Other Commitments

The Rail Authority has active construction projects and other commitments. The projects and commitments include the following:

Active Construction Projects and Other Commitments as of December 31, 2022

	Spent-to-Date	Remaining Commitment
Rail Relay – Gibbon to Fairfax construction	\$ 7,953,841	\$ 15,402
Rail Relay – Gibbon to Fairfax construction management	75,562	22,938
Rail Relay – Gibbon to Fairfax ballast and track resurfacing	97,500	275,025

Minnesota Valley Regional Rail Authority

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Active Construction Projects and Other Commitments as of December 31, 2023

	Spent-to-Date	Remaining Commitment
Minnesota River and Sulfur Lake Bridge Design	\$ 17,525	\$ 30,905

Note 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.

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.

Note 4 – Summary of Significant Contingencies

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, 2022**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Licenses and permits	\$ 215,565	\$ 215,565	\$ 220,145	\$ 4,580
Intergovernmental	9,416,319	9,416,319	8,851,424	(564,895)
Charges for services	140,000	140,000	186,540	46,540
Investment earnings	-	-	299	299
Miscellaneous	50,000	50,000	70,668	20,668
Total Revenues	\$ 9,821,884	\$ 9,821,884	\$ 9,329,076	\$ (492,808)
Expenditures				
Current				
Economic development				
Administration	\$ 186,071	\$ 186,071	\$ 207,545	\$ (21,474)
Rehabilitation and improvements	9,468,613	9,468,613	9,354,462	114,151
Repairs and maintenance	105,000	105,000	21,300	83,700
Total Expenditures	\$ 9,759,684	\$ 9,759,684	\$ 9,583,307	\$ 176,377
Net Change in Fund Balance	\$ 62,200	\$ 62,200	\$ (254,231)	\$ (316,431)
Fund Balance – January 1	945,919	945,919	945,919	-
Fund Balance – December 31	\$ 1,008,119	\$ 1,008,119	\$ 691,688	\$ (316,431)

**Minnesota Valley Regional Rail Authority
Redwood Falls, Minnesota**

Exhibit A-2

**Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2023**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Licenses and permits	\$ 231,910	\$ 231,910	\$ 235,850	\$ 3,940
Intergovernmental	-	-	564,714	564,714
Charges for services	150,000	150,000	182,340	32,340
Investment earnings	-	-	10,719	10,719
Miscellaneous	60,000	60,000	92,567	32,567
Total Revenues	\$ 441,910	\$ 441,910	\$ 1,086,190	\$ 644,280
Expenditures				
Current				
Economic development				
Administration	\$ 456,910	\$ 456,910	\$ 176,150	\$ 280,760
Rehabilitation and improvements	8,145	8,145	348,182	(340,037)
Repairs and maintenance	105,000	105,000	33,700	71,300
Total Expenditures	\$ 570,055	\$ 570,055	\$ 558,032	\$ 12,023
Net Change in Fund Balance	\$ (128,145)	\$ (128,145)	\$ 528,158	\$ 656,303
Fund Balance – January 1	691,688	691,688	691,688	-
Fund Balance – December 31	\$ 563,543	\$ 563,543	\$ 1,219,846	\$ 656,303

Minnesota Valley Regional Rail Authority Redwood Falls, Minnesota

Notes to the Required Supplementary Information
As of and for the Years Ended December 31, 2022 and 2023

Note 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.

Note 2 – Budget Basis of Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles.

Note 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 2022 or 2023.

Supplementary Information

**Minnesota Valley Regional Rail Authority
Redwood Falls, Minnesota**

Exhibit B-1

**Schedule of Intergovernmental Revenue
For the Year Ended December 31, 2022**

Grants

State

Minnesota Department of
Transportation

\$ 8,851,424

**Minnesota Valley Regional Rail Authority
Redwood Falls, Minnesota**

Exhibit B-2

**Schedule of Intergovernmental Revenue
For the Year Ended December 31, 2023**

Grants

State

Minnesota Department of
Transportation

S 564,714

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, 2022 and 2023, 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 May 22, 2024.

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 a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a 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 identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Recommendations as item 2023-001, that we consider to be a significant deficiency.

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 2023-001. 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

May 22, 2024

/s/Chad Struss

Chad Struss, CPA
Deputy State Auditor



**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, 2022 and 2023, 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 May 22, 2024.

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 and the depositories of public funds and public investments sections 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 items 2023-002 and 2023-003. 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 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 findings 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

May 22, 2024

/s/Chad Struss

Chad Struss, CPA
Deputy State Auditor

Minnesota Valley Regional Rail Authority

Redwood Falls, Minnesota

Schedule of Findings and Recommendations For the Years Ended December 31, 2022 and 2023

Section I – Financial Statement Findings

2023-001 Segregation of Duties

Prior Year Finding Number: 2021-001

Year of Finding Origination: 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 (RADDC) 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 ability of the Rail Authority personnel, in the normal course of performing their assigned functions, to detect misstatements in a timely period.

Cause: The Rail Authority has indicated it does not have the economic resources to hire additional qualified accounting staff to adequately segregate the accounting functions.

Recommendation: We recommend the Rail Authority's Board and management be aware of the lack of segregation of duties of the accounting functions and, where possible, implement oversight procedures to ensure the internal control policies and procedures are implemented to the extent possible.

View of Responsible Official: Acknowledge

Client's Response:

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 the Rail Authority staff is to enter this activity into QuickBooks. All other payments we receive are handled the same way as noted before.

Minnesota Valley Regional Rail Authority

Redwood Falls, Minnesota

Once a month before our meetings we cut checks for any invoices. These checks are then presented to the board, along with the QuickBooks register, to be approved. Moving forward, to further help with the segregation of duties, we could have another staff person at RADC do the bank statement reconciliations.

We are also going to be utilizing a new bank service called positive pay, which is an extra layer of security that will protect us against fraud.

Section II – Other Findings and Recommendations

2023-002 Contracting and Bidding Compliance

Prior Year Finding Number: 2021-002

Year of Finding Origination: 2017

Type of Finding: Minnesota Legal Compliance

Criteria: Minnesota Statutes, Section 471.345, subdivision 3, states that contracts estimated to exceed \$175,000 must be made using sealed bids solicited by public notice.

Minnesota Statutes, Section 471.345, subdivision 5, states that contracts estimated to be \$25,000 or less, may be made either upon quotation or in the open market, at the discretion of the governing body. If the contract is made upon quotation, it shall be based, so far as practicable, on at least two quotations which shall be kept on file for a period of at least one year after their receipt.

Minnesota Statutes, Section 574.26, subdivision 2, states that a contract with a public body for doing any public work is not valid unless the contractor gives (1) a performance bond and (2) a payment bond.

Minnesota Statutes, Section 16C.285, states that for each construction contract in excess of \$50,000, awarded pursuant to a lowest responsible bidder or best value process, the successful contractor must submit 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.

Minnesota Statutes, Section 15.72, subdivision 2(b), states that the public contracting agency must release all retainage no later than 60 days after substantial completion.

Minnesota Statutes, Section 270C.66, indicates 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 or otherwise obtained satisfactory evidence that the contractor or subcontractor has complied with the withholding requirements of Minn. Stat. § 290.92.

Condition: Testing of compliance with State of Minnesota contracting and bid laws identified the following instances of noncompliance:

- One of the three contracts over \$175,000 reviewed did not use sealed bids or obtain performance or payment bonds.
- The three contracts over \$175,000 tested for the responsible contractor disclosure did not contain the disclosure, and the Rail Authority did not receive the verification of compliance with minimum responsible contractor criteria from the successful contractor.

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Redwood Falls, Minnesota

- One contract under \$25,000 tested was not based on at least two quotations kept on file.
- One of the four contracts tested with retainage did not release all retainage within 60 days of the contract being substantially complete.
- Final settlement was made on two of the five contracts tested requiring the employment of employees for wages without certification or other evidence that the contractor and its subcontractors had complied with withholding requirements.

Context: The Rail Authority manages rehabilitation contracts as well as repair and maintenance contracts with the assistance of vendors for writing the bids.

Effect: Noncompliance with Minnesota Statutes §§ 471.345, 574.26, 16C.285, 15.72, and 270C.66.

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 implement procedures to ensure that all contracting and bidding be administered in accordance with Minnesota statutes.

View of Responsible Official: Acknowledge

Client's Response:

In order to avoid this finding in the future, the Rail Authority could implement a check list to go through and use when having to bid out projects and for the certain things we need from the contractor before releasing final payments to them. We could ask our lawyer to draft a list of certain statutes and regulations.

2023-003 Insufficient Collateral

Prior Year Finding Number: N/A

Year of Finding Origination: 2023

Type of Finding: Minnesota Legal Compliance

Criteria: Government entities are required by Minnesota Statute § 118A.03, to obtain collateral to secure deposits to the extent funds on deposit exceed available federal deposit insurance at the close of the financial institution's banking day. The market value of the collateral should be at least ten percent more than the uninsured and unbonded amount of deposit unless the collateral is an irrevocable letter of credit issued by Federal Home Loan Banks, which requires an amount at least equal to the amount on deposit.

Condition: The fair market value of collateral pledged to secure the Rail Authority's uninsured deposits was not sufficient to meet the 110 percent requirement for one of the two months tested in 2022.

Context: Deposits in excess of Federal Deposit Insurance Corporation (FDIC) coverage and pledged collateral were \$41,550 on December 30, 2022.

Effect: In the event the bank defaults, the Rail Authority would be at risk of losing deposits not covered by FDIC insurance and collateral.

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Cause: The Rail Authority did not review collateral to ensure sufficient coverage of their deposits.

Recommendation: We recommend the Rail Authority establish procedures to monitor deposits to determine there is adequate collateral pledged to secure deposits in accordance with Minnesota Statute § 118A.

View of Responsible Official: Acknowledge

Client's Response:

The Rail Authority is discussing with our designated bank as to how we can make sure we never have undercollateralized funds again. One solution we have come up with is enacting an ICS account at the bank that will automatically sweep our excess funds over a certain target amount that we set into other deposit accounts at other FDIC insured banks that participate in the same network. We are also going to be utilizing a new bank service called positive pay, which is an extra layer of security that will protect us against fraud.