

# State of Minnesota



## Office of the State Auditor

Julie Blaha  
State Auditor

Audit Practice Division

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

Annual Financial Report and  
Management and Compliance Report

Year Ended December 31, 2024

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

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## **Introductory Section**

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

**Organization  
2024**

Name	Office	Term Expires
Steve Saxton	Chair	Appointed Yearly
Ron Antony	Vice Chair	Appointed Yearly
Dennis Groebner	Secretary/Treasurer	Appointed Yearly
John Fahey	Member	Appointed Yearly
John Robinson	Member	Appointed Yearly
Chuck Steffl	Member	Appointed Yearly
McKenzie Taylor	Administrator	Appointed Yearly
Donald Lannoye	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 year ended December 31, 2024, 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, 2024, 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 the 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 Schedule – General Fund, 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 Schedule of Intergovernmental Revenue is presented for purposes of additional analysis and is 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.

### **Other Information**

Management is responsible for the other information included in the Annual Financial Report. The other information comprises the Introductory Section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

*/s/Julie Blaha*

Julie Blaha  
State Auditor

April 1, 2026

*/s/Lisa Young*

Lisa Young, CPA  
Deputy State Auditor

## **Management's Discussion and Analysis**

# Minnesota Valley Regional Rail Authority

## Redwood Falls, Minnesota

### Management's Discussion and Analysis December 31, 2024 (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 year ended December 31, 2024. 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 2024, the assets of the Rail Authority exceed its liabilities by \$41,468,175 (net position), of which \$40,300,317 is the net investment in capital assets (Exhibit 1), leaving unrestricted net position of \$1,167,858.
- The Rail Authority's total net position increased \$1,310,847, or 3.26 percent, in 2024.

#### 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 13 through 21 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 2023, 2024 revenues for the Rail Authority’s General Fund increased by \$1,191,070 and expenditures increased by \$1,797,604, primarily due to the ongoing bridge rehabilitation project.

The General Fund balance decreased by \$78,376 from 2023 to 2024, for a total unassigned fund balance of \$1,141,470 as of December 31, 2024.

The Minnesota Valley Regional Rail Authority adopts an annually appropriated budget for its General Fund. A budgetary comparison schedule for 2024 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 \$41,468,175 at the close of 2024. 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 2023 is presented.

#### Statement of Net Position

	2023	2024
Assets		
Current and other assets	\$ 1,233,627	\$ 1,200,795
Capital assets	38,937,482	40,304,117
Total Assets	\$ 40,171,109	\$ 41,504,912
Liabilities		
Current liabilities	\$ 13,781	\$ 36,737
Net Position		
Net investment in capital assets	\$ 38,929,452	\$ 40,300,317
Unrestricted	1,227,876	1,167,858
Total Net Position	\$ 40,157,328	\$ 41,468,175

## Governmental Activities

The Minnesota Valley Regional Rail Authority’s activities increased the Rail Authority’s net position during 2024 by \$1,310,847, representing a 3.26 percent increase, primarily because of the bridge rehabilitation project in 2024. Key elements in these increases in net position are as follows for 2024, with comparative data for 2023.

### Changes in Net Position

	2023	2024
Revenues		
Licenses and permits	\$ 235,850	\$ 247,513
Intergovernmental	564,714	1,755,831
Charges for services	182,340	202,890
Investment earnings	10,719	42,097
Miscellaneous	92,567	51,517
Total Revenues	\$ 1,086,190	\$ 2,299,848
Expenses		
Economic development	817,884	989,001
Change in Net Position	\$ 268,306	\$ 1,310,847
Net Position – January 1	39,889,022	40,157,328
Net Position – December 31	\$ 40,157,328	\$ 41,468,175

## General Fund Budgetary Highlights

There were no differences between the original General Fund expenditure budget and the final budget in 2024.

Actual General Fund 2024 revenues exceeded budgeted revenues by \$1,809,456, primarily due to more intergovernmental revenues recognized than anticipated, additional investment earnings income, and additional rail car rental income.

Budgeted 2024 expenditures exceeded actual expenditures by \$1,757,937. The expenditures were more than expected due to the work on the two bridge rehabilitations during 2024.

## Capital Assets and Debt Administration

### Capital Assets

The Minnesota Valley Regional Rail Authority’s capital assets (net of accumulated depreciation) at December 31, 2024, totaled \$40,304,117. This investment in capital assets includes land improvements and a building. The Rail Authority’s 2024 investment in land improvements increased \$1,392,190 from the previous year due to the state bonding project for bridge rehabilitation on the rail line.

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

	2023	2024
Capital assets not depreciated		
Land	\$ 654,890	\$ 654,890
Construction in progress	36,718	11,163
Total capital assets not depreciated	<u>\$ 691,608</u>	<u>\$ 666,053</u>
Capital assets depreciated		
Land improvements – infrastructure	\$ 47,856,940	\$ 49,919,905
Buildings	63,000	63,000
Total capital assets depreciated	<u>\$ 47,919,940</u>	<u>\$ 49,982,905</u>
Less: accumulated depreciation for		
Land improvements – infrastructure	\$ 9,611,066	\$ 10,281,841
Buildings	63,000	63,000
Total accumulated depreciation	<u>\$ 9,674,066</u>	<u>\$ 10,344,841</u>
Total capital assets depreciated, net	<u>\$ 38,245,874</u>	<u>\$ 39,638,064</u>
Net Capital Assets	<u>\$ 38,937,482</u>	<u>\$ 40,304,117</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 2024, 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 2025, the Rail Authority conducted a bridge study in preparation of going out for bids in 2026 for two bridges located in Redwood County in an effort to spend down the remaining funds of the previously awarded \$2,000,000 cash appropriations from the Minnesota legislature.

In 2025, the Rail Authority continued to work on spending down funds from the Consolidated Rail Infrastructure and Safety Improvements grant for the environmental analysis and preliminary engineering for the remaining portions of rail that need to be rehabilitated.

In 2025, the Rail Authority received no new additional funding towards new projects.

### 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**

**Exhibit 1**

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

**General Fund Balance Sheet and  
Statement of Net Position of Governmental Activities  
December 31, 2024**

	<u>General Fund Balance Sheet</u>	<u>Adjustments</u>	<u>Governmental Activities Statement of Net Position</u>
<b><u>Assets</u></b>			
Current assets			
Cash and investments	\$ 754,527	\$ -	\$ 754,527
Accounts receivable – net	71,847	-	71,847
Due from other governments	374,421	-	374,421
Capital assets			
Non-depreciable	-	666,053	666,053
Depreciable – net	-	39,638,064	39,638,064
<b>Total Assets</b>	<b>\$ 1,200,795</b>	<b>\$ 40,304,117</b>	<b>\$ 41,504,912</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position</u></b>			
<b>Liabilities</b>			
Current liabilities			
Accounts payable	\$ 9,113	\$ -	\$ 9,113
Contracts payable	27,624	-	27,624
<b>Total Liabilities</b>	<b>\$ 36,737</b>	<b>\$ -</b>	<b>\$ 36,737</b>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue	\$ 22,588	\$ (22,588)	
<b>Fund Balance</b>			
Unassigned	\$ 1,141,470	\$ (1,141,470)	
<b>Net Position</b>			
Net investment in capital assets		\$ 40,300,317	\$ 40,300,317
Unrestricted		1,167,858	1,167,858
<b>Total Net Position</b>		<b>\$ 41,468,175</b>	<b>\$ 41,468,175</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position</b>	<b>\$ 1,200,795</b>	<b>\$ 40,304,117</b>	<b>\$ 41,504,912</b>

**Exhibit 1**

(Continued)

**Minnesota Valley Regional Rail Authority  
Redwood Falls, Minnesota**  
**General Fund Balance Sheet and  
Statement of Net Position of Governmental Activities  
December 31, 2024**

**Reconciliation of the General Fund Balance to Net Position**

<b>Fund Balance – General Fund</b>	<b>\$ 1,141,470</b>
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Long-term assets are not available to pay current period expenditures and, therefore, are reported as deferred inflows of resources – unavailable revenue on the General Fund Balance Sheet but not on the Statement of Net Position.

22,588

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.

40,304,117

**Net Position – Governmental Activities**

**\$ 41,468,175**

**Exhibit 2**

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

**General Fund Revenues, Expenditures, and Changes in Fund Balance and  
Statement of Activities of Governmental Activities  
For the Year Ended December 31, 2024**

	<b>General Fund Revenues, Expenditures, and Changes in Fund Balance</b>		<b>Adjustments</b>	<b>Governmental Activities Statement of Activities</b>
<b>Revenues</b>				
Licenses and permits	\$ 247,513	\$ -		\$ 247,513
Intergovernmental	1,733,243	22,588		1,755,831
Charges for services	202,890	-		202,890
Investment earnings	42,097	-		42,097
Miscellaneous	51,517	-		51,517
	<hr/>			<hr/>
<b>Total Revenues</b>	<b>\$ 2,277,260</b>	<b>\$ 22,588</b>		<b>\$ 2,299,848</b>
	<hr/>			<hr/>
<b>Expenditures/Expenses</b>				
<b>Current</b>				
<b>Economic development</b>				
Administration	\$ 225,650	\$ -		\$ 225,650
Rehabilitation and improvements	2,116,150	(1,366,635)		749,515
Repairs and maintenance	13,836	-		13,836
	<hr/>			<hr/>
<b>Total Expenditures/Expenses</b>	<b>\$ 2,355,636</b>	<b>\$ (1,366,635)</b>		<b>\$ 989,001</b>
	<hr/>			<hr/>
<b>Net Change in Fund Balance/Net Position</b>	<b>\$ (78,376)</b>	<b>\$ 1,389,223</b>		<b>\$ 1,310,847</b>
<b>Fund Balance/Net Position – January 1</b>	<b>1,219,846</b>	<b>38,937,482</b>		<b>40,157,328</b>
	<hr/>			<hr/>
<b>Fund Balance/Net Position – December 31</b>	<b>\$ 1,141,470</b>	<b>\$ 40,326,705</b>		<b>\$ 41,468,175</b>
	<hr/>			<hr/>

**Exhibit 2**  
**(Continued)**

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

**General Fund Revenues, Expenditures, and Changes in Fund Balance and**  
**Statement of Activities of Governmental Activities**  
**For the Year Ended December 31, 2024**

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

**Change in Fund Balance** **\$ (78,376)**

In the governmental fund, under the modified accrual basis, receivables not available for expenditure are deferred. In the Statement of Activities, those revenues are recognized when earned. The adjustment to revenues between the fund statement and the Statement of Activities is the increase or decrease in revenues deferred as unavailable.

Unavailable revenue – December 31 **\$ 22,588**

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 \$ 2,037,410  
Current year depreciation (670,775)

**Total adjustment to the government-wide statements for**  
**current year capital asset activity** **\$ 1,366,635**

**Change in Net Position of Governmental Activities** **\$ 1,310,847**

# Minnesota Valley Regional Rail Authority

## Redwood Falls, Minnesota

### Notes to the Financial Statements

As of and for the Years Ended December 31, 2024

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#### 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 year ended December 31, 2024. 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 and 2. 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 changes 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 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.

# Minnesota Valley Regional Rail Authority

## Redwood Falls, Minnesota

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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 2024 were \$42,097.

#### 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 year ended December 31, 2024.

#### 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.

Additions, improvements, and other capital outlays that significantly extend the useful life or increase capacity of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

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

#### Estimated Useful Lives of Capital Assets

Assets	Years
Land improvements – infrastructure	70
Buildings	25
Machinery and equipment	5

# Minnesota Valley Regional Rail Authority

## Redwood Falls, Minnesota

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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 financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until that time. The Rail Authority has no items that qualify for reporting in this category for the year ended December 31, 2024.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and will not be recognized as an inflow of resources (revenue or reduction of expense) until that time. The General Fund reports unavailable revenue from grant monies receivable for amounts that are not considered available to liquidate liabilities of the current period. Unavailable revenue arises only under the modified accrual basis of accounting and, accordingly, is reported only in the governmental fund balance sheet.

### 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 year ended December 31, 2024.

### 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.

# Minnesota Valley Regional Rail Authority

## Redwood Falls, Minnesota

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### 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:

- 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.

# Minnesota Valley Regional Rail Authority

## Redwood Falls, Minnesota

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### Note 2 – 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**  
**As of December 31, 2024**

Cash and Investments	Amount
Checking	\$ 215,236
MAGIC Portfolio	539,291
Total Cash and Investments	<u>\$ 754,527</u>

#### 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 31, 2024, 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;

## Minnesota Valley Regional Rail Authority Redwood Falls, Minnesota

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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, the National Credit Union Administration, 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, 2024, all the Rail Authority's investments, valued at \$539,291, were in the 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 NAV 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.

# Minnesota Valley Regional Rail Authority

## Redwood Falls, Minnesota

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### 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.

### 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, 2024, 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, 2024, all of the Rail Authority's investments were in the MAGIC Fund.

### Receivables and Revenue

#### Receivables as of December 31, 2024

	Receivables	Less: Allowance for Uncollectible Accounts	Net Receivables
Accounts receivable	\$ 97,750	\$ (25,903)	\$ 71,847
Due from other governments	374,421	-	374,421
Total	\$ 472,171	\$ (25,903)	\$ 446,268

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.

The Rail Authority entered into an agreement as of January 15, 2001, with Minnesota Prairie Line for the use of the rail line owned by the Rail Authority. Variable quarterly payments are made based on number of loaded cars transported over the rail line. Revenues from this agreement were \$202,890 in 2024.

# Minnesota Valley Regional Rail Authority

## Redwood Falls, Minnesota

### Capital Assets

#### Changes in Capital Assets for the Year Ended December 31, 2024

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 654,890	\$ -	\$ -	\$ 654,890
Construction in progress	36,718	-	(25,555)	11,163
<b>Total capital assets not depreciated</b>	<b>\$ 691,608</b>	<b>\$ -</b>	<b>\$ (25,555)</b>	<b>\$ 666,053</b>
Capital assets depreciated				
Land improvements – infrastructure	\$ 47,856,940	\$ 2,062,965	\$ -	\$ 49,919,905
Buildings	63,000	-	-	63,000
<b>Total capital assets depreciated</b>	<b>\$ 47,919,940</b>	<b>\$ 2,062,965</b>	<b>\$ -</b>	<b>\$ 49,982,905</b>
Less: accumulated depreciation for				
Land improvements – infrastructure	\$ 9,611,066	\$ 670,775	\$ -	\$ 10,281,841
Buildings	63,000	-	-	63,000
<b>Total accumulated depreciation</b>	<b>\$ 9,674,066</b>	<b>\$ 670,775</b>	<b>\$ -</b>	<b>\$ 10,344,841</b>
<b>Total capital assets depreciated, net</b>	<b>\$ 38,245,874</b>	<b>\$ 1,392,190</b>	<b>\$ -</b>	<b>\$ 39,638,064</b>
<b>Net Capital Assets</b>	<b>\$ 38,937,482</b>	<b>\$ 1,392,190</b>	<b>\$ (25,555)</b>	<b>\$ 40,304,117</b>

Depreciation expense of \$670,775 was charged to the Rail Authority’s economic development function for the year ended December 31, 2024.

Construction in progress as December 31, 2024, consists of the Franklin Hill realignment project.

### 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, 2024

	Spent-to-Date	Remaining Commitment
Preliminary Design and Environmental Study for rehabilitation from Fairfax to Hanley Falls	\$ 61,801	\$ 441,260

### 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 Valley Regional Rail Authority

## Redwood Falls, Minnesota

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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**

**Budgetary Comparison Schedule  
General Fund  
For the Year Ended December 31, 2024**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Licenses and permits	\$ 237,804	\$ 237,804	\$ 247,513	\$ 9,709
Intergovernmental	-	-	1,733,243	1,733,243
Charges for services	170,000	170,000	202,890	32,890
Investment earnings	-	-	42,097	42,097
Miscellaneous	60,000	60,000	51,517	(8,483)
<b>Total Revenues</b>	<b>\$ 467,804</b>	<b>\$ 467,804</b>	<b>\$ 2,277,260</b>	<b>\$ 1,809,456</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>Economic development</b>				
Administration	\$ 484,554	\$ 484,554	\$ 225,650	\$ 258,904
Rehabilitation and improvements	8,145	8,145	2,116,150	(2,108,005)
Repairs and maintenance	105,000	105,000	13,836	91,164
<b>Total Expenditures</b>	<b>\$ 597,699</b>	<b>\$ 597,699</b>	<b>\$ 2,355,636</b>	<b>\$ (1,757,937)</b>
<b>Net Change in Fund Balance</b>	<b>\$ (129,895)</b>	<b>\$ (129,895)</b>	<b>\$ (78,376)</b>	<b>\$ 51,519</b>
<b>Fund Balance – January 1</b>	<b>1,219,846</b>	<b>1,219,846</b>	<b>1,219,846</b>	<b>-</b>
<b>Fund Balance – December 31</b>	<b>\$ 1,089,951</b>	<b>\$ 1,089,951</b>	<b>\$ 1,141,470</b>	<b>\$ 51,519</b>

# Minnesota Valley Regional Rail Authority Redwood Falls, Minnesota

## Notes to the Required Supplementary Information For the Year Ended December 31, 2024

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### 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 budget 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 – Excess of Expenditures Over Budget

The General Fund had expenditures in excess of budget for the year ended December 31, 2024:

#### Comparison of Expenditures to Final Budget

	Expenditures	Final Budget	Excess
General Fund	\$ 2,355,636	\$ 597,699	\$ 1,757,937

## Supplementary Information

**Exhibit B-1**

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

**Schedule of Intergovernmental Revenue  
For the Year Ended December 31, 2024**

**Grants**

**State**

Minnesota Department of Transportation

\$ 1,683,802

**Federal**

Department of Transportation

49,441

**Total Intergovernmental Revenue**

**\$ 1,733,243**

## **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 year ended December 31, 2024, 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 April 1, 2026.

### 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 2024-001, 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 2024-001. 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 Rail Authority, and is not intended to be, and should not be, used by anyone other than these specified parties.

*/s/Julie Blaha*

Julie Blaha  
State Auditor

April 1, 2026

*/s/Lisa Young*

Lisa Young, CPA  
Deputy State Auditor



Julie Blaha  
State Auditor

Suite 500  
525 Park Street  
Saint Paul, MN 55103

## Independent Auditor's Report on Minnesota Legal Compliance

Board Members  
Minnesota Valley Regional Rail Authority  
Redwood Falls, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the financial statements of the governmental activities and the General Fund of the Minnesota Valley Regional Rail Authority as of and for the year ended December 31, 2024, 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 April 1, 2026.

In connection with our audit, we noted that the Minnesota Valley Regional Rail Authority failed to comply with the provisions of the contracting – bid laws section of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters as described in the Schedule of Findings and Recommendations as item 2024-002. Also, in connection with our audit, nothing came to our attention that caused us to believe that the Minnesota Valley Regional Rail Authority failed to comply with the provisions of the depositories of public funds and public investments, conflicts of interest, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Rail Authority's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

The Minnesota Valley Regional Rail Authority's response to the legal compliance finding identified in our audit is described in the Schedule of Findings and Recommendations. The Minnesota Valley Regional Rail Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of 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 these specified parties.

/s/Julie Blaha

Julie Blaha  
State Auditor

April 1, 2026

/s/Lisa Young

Lisa Young, CPA  
Deputy State Auditor

# Minnesota Regional Rail Authority Redwood Falls, Minnesota

## Schedule of Findings and Recommendations For the Year Ended December 31, 2024

### Section I – Financial Statement Findings

**2024-001**      **Segregation of Duties**

**Prior Year Finding Number:** 2023-001

**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 (RADC) 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 Rail Authority; however, the Rail Authority's Board and management should constantly be aware of this condition and understand 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.

**Client Response:** *The MVRRA is aware of the lack of segregation of duties due to the limited number of staff available through our contract with RADC. Given the size of our organization, it is not feasible for us to fully separate all accounting and administrative responsibilities.*

*That said, we do take this seriously and have put controls in place to help reduce risk. Financials, bank reconciliations, and disbursements are regularly reviewed by the Board, and all activity goes through an approval process at our Board meetings. We also maintain supporting documentation for all transactions or invoices received and provide regular financial reports for Board review.*

# Minnesota Valley Regional Rail Authority

## Redwood Falls, Minnesota

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*We understand that having multiple roles handled by one person is not ideal. We will continue to monitor this and make improvements where it makes sense and is feasible.*

### Section II – Other Findings and Recommendations

#### **2024-002      Contracting Compliance**

**Prior Year Finding Number:** 2023-002

**Year of Finding Origination:** 2017

**Type of Finding:** Minnesota Legal Compliance

**Criteria:** 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 proof of compliance with the withholding requirements of Minn. Stat. § 290.92. This requirement can be satisfied through the receipt of Form IC-134 from the Commissioner of Revenue certifying compliance.

**Condition:** During review of two finalized contracts that included employment of individuals for wages by the contractor and where final payment had been made, the Rail Authority issued final payment to one contractor prior to receiving a Minnesota Department of Revenue approved Form IC-134, which certifies the reporting of employee withholdings, from the contractor.

**Context:** The Rail Authority manages rehabilitation contracts as well as repair and maintenance contracts.

**Effect:** The Rail Authority is not in compliance with Minn. Stat. § 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 all contracting is administered in accordance with Minnesota statutes. Additionally, we recommend the Rail Authority obtain the required IC-134 withholding affidavit form before final payment is made to contractors and subcontractors on all construction contracts requiring the employment of employees for wages.

**Client Response:** *The MVRRA acknowledges this finding. For one of the contracts reviewed, the required Form IC-134 was obtained prior to final payment. However, for the second contract, which was a smaller maintenance project, the IC-134 was not obtained before final payment was issued. At the time, it was not clearly understood that this requirement applies to all contracts involving labor, regardless of size.*

*Since becoming aware of this requirement, the Rail Authority has taken steps to ensure compliance moving forward. We will require Form IC-134 for all applicable contracts prior to issuing final payment, regardless of contract size or scope. Additionally, we have already altered our contracting procedures and checklists to ensure all statutory requirements are consistently met moving forward.*

*The Rail Authority is committed to maintaining compliance with Minnesota statutes and will continue to strengthen its processes to prevent this from occurring in the future.*