

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

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

YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

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

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

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

Audit Practice - conducts financial and legal compliance audits for local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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

Year Ended December 31, 2005



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

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

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

ORGANIZATION
2005

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

*Chair 2005 and 2006

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PATRICIA ANDERSON
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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Minnesota Valley Regional Railroad Authority

We have audited the basic financial statements of the governmental activities and the General Fund of the Minnesota Valley Regional Railroad Authority as of and for the year ended December 31, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Minnesota Valley Regional Railroad Authority as of December 31, 2005, and the changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of

inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: April 17, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005
(Unaudited)**

As management of the Minnesota Valley Regional Railroad Authority, we offer the readers of the Authority's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended December 31, 2005. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL REPORTING ENTITY

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

FINANCIAL HIGHLIGHTS

The assets of the Minnesota Valley Regional Railroad Authority exceeded its liabilities by \$4,241,974 (net assets), of which \$4,144,463 is invested in capital assets, net of related debt (Exhibit 1), leaving unrestricted net assets of \$97,511.

The Authority's total net assets decreased by \$85,408 in 2005. This is attributable to a decrease in intergovernmental revenues.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the basic financial statements. The Minnesota Valley Regional Railroad Authority's basic financial statements consist of two statements that combine government-wide financial statements and fund financial statements, a budgetary comparison statement, and notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

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

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

Governmental Fund

Revenues for the Authority's General Fund decreased by \$1,800,187, while total expenditures decreased \$2,009,230.

As shown in the Statement of Activities on Exhibit 2, the amount that was received through miscellaneous revenue was 50.4 percent of the total revenue received, or \$114,100.

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

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

Government-Wide Financial Analysis

Over time, net assets serve as a useful indicator of the Authority's financial position. The Minnesota Valley Regional Railroad Authority's assets exceeded liabilities by \$4,241,974 at the close of 2005. The largest portion of the Authority's net assets reflects the Authority's investment in capital assets (for example, land, buildings, equipment and infrastructure, such as the rail bed), less any related debt used to acquire those assets (that is still outstanding). However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

**Governmental Activities
Net Assets**

	2005	2004 (Restated)
Assets		
Current and other assets	\$ 60,742	\$ 152,197
Capital assets	9,987,337	10,172,588
Total Assets	\$ 10,048,079	\$ 10,324,785
Liabilities		
Long-term liabilities	\$ 5,746,686	\$ 5,874,775
Other liabilities	59,419	122,628
Total Liabilities	\$ 5,806,105	\$ 5,997,403
Net Assets		
Invested in capital assets, net of related debt	\$ 4,144,463	\$ 4,265,099
Unrestricted	97,511	62,283
Total Net Assets	\$ 4,241,974	\$ 4,327,382

Governmental Activities

The Minnesota Valley Regional Railroad Authority's activities decreased the Authority's net assets during 2005 by \$85,408, representing a 2.0 percent decrease, primarily because of the Authority's investment in capital assets. Key elements in this decrease in net assets are as follows:

**Governmental Activities
Changes in Net Assets**

	2005	2004 (Restated)
Revenues		
Program revenues		
Charges for services	\$ 37,755	\$ 37,290
Intergovernmental	74,000	1,950,430
General revenues		
Interest earnings	547	257
Miscellaneous	114,100	38,612
Total Revenues	\$ 226,402	\$ 2,026,589
Expenses		
Economic development	\$ 311,810	\$ 512,107
Interest	-	1,666
Total Expenses	\$ 311,810	\$ 513,773
Increase in Net Assets	\$ (85,408)	\$ 1,512,816
Net Assets - January 1, restated	4,327,382	2,814,566
Net Assets - December 31	\$ 4,241,974	\$ 4,327,382

(Unaudited)

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General Fund Budgetary Highlights

No differences between the original General Fund expenditure budget and the final budget were experienced in 2005.

Budgeted General Fund revenues exceeded actual revenues by \$53,198, primarily due to less pass-through intergovernmental receipts.

Actual expenditures were less than budgeted expenditures by \$34,526. The less-than-expected expenditures reflect less-than-anticipated rehabilitation costs. Not all loan payments were included in the 2005 budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Minnesota Valley Regional Railroad Authority's depreciable capital assets at December 31, 2005, totaled \$9,396,337 (net of accumulated depreciation). This investment in capital assets includes land improvements, buildings, and equipment. The Authority's investment in land improvements increased \$1,977,142 from the previous year.

Capital Assets at Year-End (Net of Depreciation, in thousands)

	2005	2004
Capital assets depreciated		
Land improvements	\$ 10,212,045	\$ 8,234,903
Buildings	63,000	63,000
Machinery and equipment	4,000	4,000
Total capital assets depreciated	<u>\$ 10,279,045</u>	<u>\$ 8,301,903</u>
Less: accumulated depreciation for		
Land improvements	\$ 862,958	\$ 607,657
Buildings	15,750	12,600
Machinery and equipment infrastructure	4,000	3,200
Total accumulated depreciation	<u>\$ 882,708</u>	<u>\$ 623,457</u>
Total Capital Assets, Depreciated, Net	<u><u>\$ 9,396,337</u></u>	<u><u>\$ 7,678,446</u></u>

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

Long-Term Debt

At the end of the current fiscal year, the Authority had total outstanding debt of \$5,798,423. Other liabilities and contingencies are described in the notes to the financial statements.

Outstanding Debt

	2005	2004 (Restated)
State loan	\$ 4,800,000	\$ 4,800,000
Shipper's loan	523,213	558,328
Operator loan	440,000	469,500
County loan	35,210	46,947
Total	<u>\$ 5,798,423</u>	<u>\$ 5,874,775</u>

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

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

During 2006, the Authority will be receiving an additional \$2,000,000 in federal grant dollars for continued rehabilitation of the track from Morton west to Hanley Falls. This work is tentatively scheduled for early fall, depending on when the funding comes through to the State of Minnesota.

For 2006, the Authority has received additional funding for further rehabilitation of the rail line from Gibbon/Winthrop east to Norwood Young America--\$1,000,000 from the State Bonding bill, and \$495,000 from Federal level. Heartland Corn Products will be expanding from 35 million to 100 million capacity for ethanol production. This will result in the need for 35-mph unit trains for both inbound and outbound movement of commodities to their facility. A federal grant appropriation request for \$10,000,000 in 2007 and an additional \$10,000,000 in 2008 has been requested and supported by the Minnesota legislative contingency.

The Authority, in conjunction with Region 9 and Twin Cities Western, completed a marketing feasibility study to determine and identify additional non-ag shippers that could use the rail line if the track had designated transloading sites along its 97 miles.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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

EXHIBIT 1

**STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2005**

	General Fund	Reconciliation	Governmental Activities
<u>Assets</u>			
Cash and pooled investments	\$ 44,053	\$ -	\$ 44,053
Accounts receivable	16,644	-	16,644
Accrued interest receivable	45	-	45
Capital assets			
Non-depreciable	-	591,000	591,000
Depreciable - net	-	9,396,337	9,396,337
Total Assets	\$ 60,742	\$ 9,987,337	\$ 10,048,079
<u>Liabilities</u>			
Current liabilities			
Accounts payable	\$ 1,291	\$ -	\$ 1,291
Due to other governments	1,677	-	1,677
Deferred revenue - unearned	4,714	-	4,714
Long-term liabilities			
Due within one year	-	51,737	51,737
Due in more than one year	-	5,746,686	5,746,686
Total Liabilities	\$ 7,682	\$ 5,798,423	\$ 5,806,105
<u>Fund Balance/Net Assets</u>			
Fund Balance			
Unreserved			
Undesignated	53,060	\$ (53,060)	
Total Liabilities and Fund Balance	\$ 60,742		
Net Assets			
Invested in capital assets - net of related debt		\$ 4,144,463	\$ 4,144,463
Unrestricted		97,511	97,511
Total Net Assets		\$ 4,241,974	\$ 4,241,974
Reconciliation of the Governmental Fund Balance to Net Assets			
Fund Balance - Governmental Fund			\$ 53,060
Capital assets are reported on the Statement of Net Assets but not in the Fund Balance Sheet.			9,987,337
Long-term liabilities are reported on the Statement of Net Assets but not in the Fund Balance Sheet.			(5,798,423)
Net Assets - Governmental Activities			\$ 4,241,974

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

EXHIBIT 2

**STATEMENT OF ACTIVITIES AND
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2005**

	General Fund	Reconciliation (Note 2.)	Governmental Activities
Revenues			
Intergovernmental			
U.S. Department of Transportation	\$ 74,000	\$ -	\$ 74,000
Charges for services	37,755	-	37,755
Investment earnings	547	-	547
Miscellaneous	114,100	-	114,100
Total Revenues	\$ 226,402	\$ -	\$ 226,402
Expenditures/Expenses			
Current			
Economic development			
Administration	\$ 65,572	\$ -	\$ 65,572
Rehabilitation	50,000	185,251	235,251
Transportation	10,987	-	10,987
Debt service			
Principal	86,852	(86,852)	-
Total Expenditures/Expenses	\$ 213,411	\$ 98,399	\$ 311,810
Revenues Over (Under) Expenditures	\$ 12,991	\$ (98,399)	\$ (85,408)
Other Financing Sources (Uses)			
Proceeds from loans	10,500	(10,500)	-
Change in Fund Balance/Net Assets	\$ 23,491	\$ (108,899)	\$ (85,408)
Fund Balance/Net Assets - January 1, as restated (Note 1.D.8.)	29,569	4,297,813	4,327,382
Fund Balance/Net Assets - December 31	\$ 53,060	\$ 4,188,914	\$ 4,241,974

Reconciliation of the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities

Net change in fund balance	\$ 23,491
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The adjustment is the amount by which capital outlay exceeded depreciation expense in the current period.	(185,251)
Incurred long-term debt provides current financial resources to governmental funds, while the repayment of principal on long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net assets. The adjustment is the difference between new debt issued and payments on debt.	76,352
Change in Net Assets of Governmental Activities	\$ (85,408)

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

EXHIBIT 3

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGETARY COMPARISON
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 170,000	\$ 170,000	\$ 74,000	\$ (96,000)
Charges for services	-	-	37,755	37,755
Interest on investments	-	-	547	547
Miscellaneous	109,600	109,600	114,100	4,500
Total Revenues	\$ 279,600	\$ 279,600	\$ 226,402	\$ (53,198)
Expenditures				
Current				
Economic development				
Administration	\$ 65,700	\$ 65,700	\$ 65,572	\$ 128
Rehabilitation	170,000	170,000	50,000	120,000
Transportation	500	500	10,987	(10,487)
Debt service				
Principal	11,737	11,737	86,852	(75,115)
Total Expenditures	\$ 247,937	\$ 247,937	\$ 213,411	\$ 34,526
Excess of Revenues Over (Under)				
Expenditures	\$ 31,663	\$ 31,663	\$ 12,991	\$ (18,672)
Other Financing Sources (Uses)				
Loan proceeds	-	-	10,500	10,500
Change in Fund Balance	\$ 31,663	\$ 31,663	\$ 23,491	\$ (8,172)
Fund Balance - January 1	29,569	29,569	29,569	-
Fund Balance - December 31	\$ 61,232	\$ 61,232	\$ 53,060	\$ (8,172)

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005**

1. Summary of Significant Accounting Policies

The Minnesota Valley Regional Railroad Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2005. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Minnesota Valley Regional Railroad are discussed below.

A. Financial Reporting Entity

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

B. Basic Financial Statements

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

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

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

1. Summary of Significant Accounting Policies

B. Basic Financial Statements (Continued)

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

C. Measurement Focus and Basis of Accounting

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

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

Deposits and investments are reported at their fair value at December 31, 2005, based on market price.

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

1. Summary of Significant Accounting Policies

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

2. Receivables

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

3. Capital Assets

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

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

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

<u>Assets</u>	<u>Years</u>
Land improvements and buildings	20 to 40
Machinery and equipment	5

4. Deferred Revenue

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

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

1. Summary of Significant Accounting Policies

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

5. Long-Term Liabilities

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

6. Fund Equity

The fund financial statements report reservations of fund balance for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The Authority reported no reservations or designations for the year ended December 31, 2005.

7. Use of Estimates

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

8. Prior Period Adjustment

Certain payments on the operator loan were forgiven; prior period long-term liabilities were restated to reflect that. Long-term liabilities for operator loans were restated to \$469,500 at January 1, 2005. The effect on net assets for governmental activities at January 1, 2005, is as follows:

Net assets as previously reported	\$ 4,247,721
Correction of long-term liability for operator loan due to forgiven payments	<u>79,661</u>
Net Assets as Restated	<u><u>\$ 4,327,382</u></u>

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

2. Reconciliation for Government-Wide and Fund Financial Statements

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

Exhibit 2 includes a reconciliation between net changes in fund balance of the General Fund and the changes in net assets of the governmental activities for the year ended December 31, 2005. The following table shows the necessary adjustments:

	<u>Adjustments</u>
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The adjustment is the amount by which capital outlay exceeded depreciation expense in the current period.	
Capital outlay	\$ 74,000
Depreciation expense	(259,251)
Adjustment for Capital Assets	\$ (185,251)
Incurring long-term debt provides current financial resources to governmental funds, while the repayment of principal on long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net assets. The adjustment is the difference between new debt issued and payments on debt.	
Long-term debt incurred	\$ (10,500)
Payments on long-term debt	86,852
Adjustment for Long-Term Debt	\$ 76,352

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

3. Detailed Notes

A. Assets

1. Deposits and Investments

The Authority's total cash deposits as reported in the basic financial statements consisted of \$44,053.

a. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize the Authority to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires all Authority deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest 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, revenue obligations rated "AA" or better; irrevocable standard 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 Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. As of December 31, 2005, the Authority's deposits were not exposed to custodial credit risk.

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

3. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

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

During the year ended December 31, 2005, the Authority had no investments.

2. Due From Other Governments

There were no amounts due from other governments at December 31, 2005.

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

3. Detailed Notes

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 591,000	\$ -	\$ -	\$ 591,000
Construction in progress	1,903,142	74,000	1,977,142	-
Total capital assets not depreciated	<u>\$ 2,494,142</u>	<u>\$ 74,000</u>	<u>\$ 1,977,142</u>	<u>\$ 591,000</u>
Capital assets depreciated				
Land improvements	\$ 8,234,903	\$ 1,977,142	\$ -	\$ 10,212,045
Buildings	63,000	-	-	63,000
Machinery and equipment	4,000	-	-	4,000
Total capital assets depreciated	<u>\$ 8,301,903</u>	<u>\$ 1,977,142</u>	<u>\$ -</u>	<u>\$ 10,279,045</u>
Less: accumulated depreciation for				
Land improvements	\$ 607,657	\$ 255,301	\$ -	\$ 862,958
Buildings	12,600	3,150	-	15,750
Machinery and equipment	3,200	800	-	4,000
Total accumulated depreciation	<u>\$ 623,457</u>	<u>\$ 259,251</u>	<u>\$ -</u>	<u>\$ 882,708</u>
Total capital assets depreciated, net	<u>\$ 7,678,446</u>	<u>\$ 1,717,891</u>	<u>\$ -</u>	<u>\$ 9,396,337</u>
Governmental Activities Capital Assets, Net	<u>\$ 10,172,588</u>	<u>\$ 1,791,891</u>	<u>\$ 1,977,142</u>	<u>\$ 9,987,337</u>

Depreciation expense was charged to economic development for the year ended December 31, 2005.

4. Receivables

The Authority did not have any receivables scheduled to be collected beyond one year as of December 31, 2005.

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

3. Detailed Notes (Continued)

B. Liabilities

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
State loan	\$ 4,800,000	\$ -	\$ -	\$ 4,800,000	\$ - *
Shipper's loan	558,328	-	35,115	523,213	- *
Operator loan	469,500	10,500	40,000	440,000	40,000
County loan	46,947	-	11,737	35,210	11,737
Total	<u>\$ 5,874,775</u>	<u>\$ 10,500</u>	<u>\$ 86,852</u>	<u>\$ 5,798,423</u>	<u>\$ 51,737</u>

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

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

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

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

3. Detailed Notes

B. Liabilities

Changes in Long-Term Liabilities (Continued)

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

	Operator	County
2006	\$ 40,000	\$ 11,737
2007	40,000	11,737
2008	40,000	11,736
2009	40,000	-
2010	40,000	-
2011 - 2015	200,000	-
2016	40,000	-
Total	\$ 440,000	\$ 35,210

4. Risk Management

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

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

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2005**

I. FINANCIAL STATEMENT AUDIT

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

00-1 Internal Accounting Controls

Due to the Minnesota Valley Regional Railroad Authority's size, proper segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. Although this is not unusual in small entities, the Authority should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

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

Client's Response:

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

II. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM RESOLVED

Final Contract Payment (01-2)

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

Resolution

The Authority complies with Minn. Stat. § 290.97.



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PATRICIA ANDERSON
STATE AUDITOR

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND MINNESOTA LEGAL COMPLIANCE

Board of Commissioners
Minnesota Valley Regional Railroad Authority

We have audited the financial statements of the governmental activities and the General Fund of the Minnesota Valley Regional Railroad Authority as of and for the year ended December 31, 2005, and have issued our report thereon dated April 17, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

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

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

Minnesota Legal Compliance

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

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

The results of our tests indicate that, for the items tested, the Minnesota Valley Regional Railroad Authority complied with the material terms and conditions of applicable legal provisions.

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

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: April 17, 2006