STATE OF MINNESOTA

Office of the State Auditor

Rebecca Otto
State Auditor

MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA

FOR THE YEARS ENDED
DECEMBER 31, 2008, 2009, AND 2010

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

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

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

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

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

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MINNESOTA VALLEY REGIONAL RAIL AUTHORITY REDWOOD FALLS, MINNESOTA

For the Years Ended December 31, 2008, 2009, and 2010

Audit Practice Division
Office of the State Auditor
State of Minnesota

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MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA

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Introductory Section

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MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA

ORGANIZATION
2008

Name	Office	Term Expires
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

MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA

ORGANIZATION
2009

Name	Office	Term Expires
Bruce Pinske	Chair	Appointed Yearly
Bob Fox	Vice Chair	Appointed Yearly
Jane Remiger	Secretary/Treasurer	Appointed Yearly
Tom Workman	Member	Appointed Yearly
Charlie Woehler	Member	Appointed Yearly
Gary Dahms	Member	Appointed Yearly
Julie Rath	Administrator	Appointed Yearly
David Schauer	Legal Counsel	Appointed Yearly

MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA

ORGANIZATION
2010

Name	Office	Term Expires
Bob Fox	Chair	Appointed Yearly
Jane Remiger	Vice Chair	Appointed Yearly
Gary Dahms	Secretary/Treasurer	Appointed Yearly
Tom Workman	Member	Appointed Yearly
Charlie Woehler	Member	Appointed Yearly
Scott Blumhoefer	Member	Appointed Yearly
Julie Rath	Administrator	Appointed Yearly
David Schauer	Legal Counsel	Appointed Yearly

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board Members
Minnesota Valley Regional Rail Authority

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Minnesota Valley Regional Rail Authority as of and for the years ended December 31, 2008, 2009, and 2010, 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.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

As discussed in Note 1.E.3. to the financial statements, the Minnesota Valley Regional Rail Authority does not maintain records of capital asset balances, additions, deletions, or depreciation. The accompanying financial statements report capital outlay payments as additions to capital assets. No deletions have been reported. We were not able to satisfy ourselves by auditing procedures or other means as to the carrying value of capital assets on hand, the carrying value of capital assets disposed of, if any, or the amounts calculated as depreciation expense.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding capital asset balances, additions, disposals, and the related depreciation expense, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Minnesota Valley Regional Rail Authority as of December 31, 2008, 2009, and 2010, and the changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund of the Minnesota Valley Regional Rail Authority as of December 31, 2008, 2009, and 2010, and the respective changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedules, Exhibits A-1, A-2, and A-3, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), 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 evidence sufficient to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB 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. Our opinion on the basic financial statements is not affected by this missing information.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2011, on our consideration of the Minnesota Valley Regional Rail Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

May 5, 2011

BASIC FINANCIAL STATEMENTS

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MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA

EXHIBIT 1

GOVERNMENTAL FUND BALANCE SHEET AND STATEMENT OF NET ASSETS
DECEMBER 31, 2008

	General Fund	Adjustments	Governmental Activities
Assets			
Cash and pooled investments	$ 100,801	$ -	$ 100,801
Accounts receivable	49,462	-	49,462
Capital assets			
Non-depreciable	-	591,000	591,000
Depreciable - net	-	12,079,868	12,079,868
Total Assets	**$ 150,263**	**$ 12,670,868**	**$ 12,821,131**
Liabilities and Fund Balance/Net Assets			
Liabilities			
Current liabilities			
Accounts payable	$ 49,440	$ -	$ 49,440
Long-term liabilities			
Due within one year	-	40,000	40,000
Due in more than one year	-	5,301,089	5,301,089
Total Liabilities	**$ 49,440**	**$ 5,341,089**	**$ 5,390,529**
Fund Balance			
Unreserved			
Undesignated	100,823	**$ (100,823)**	
Net Assets			
Invested in capital assets - net of related debt		$ 7,329,779	$ 7,329,779
Unrestricted		100,823	100,823
Total Net Assets		**$ 7,430,602**	**$ 7,430,602**
Total Liabilities and Fund Balance/Net Assets	**$ 150,263**	**$ 12,670,868**	**$ 12,821,131**

Reconciliation of the General Fund Balance to Net Assets

Fund Balance - General Fund	$ 100,823
Capital assets are reported in the Statement of Net Assets but not in the Fund Balance Sheet.	12,670,868
Long-term liabilities are reported in the Statement of Net Assets but not in the Fund Balance Sheet.	(5,341,089)
Net Assets - Governmental Activities	**$ 7,430,602**

MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA

EXHIBIT 2

GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE AND STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

	General Fund	Adjustments	Governmental Activities
Revenues			
Intergovernmental			
Intergovernmental reimbursement - economic development	$ 52,906	$ -	$ 52,906
Charges for services	130,980	-	130,980
Investment earnings	151	-	151
Miscellaneous	172,421	(9,469)	162,952
Capital contributions	-	1,577,490	1,577,490
Total Revenues	**$ 356,458**	**$ 1,568,021**	**$ 1,924,479**
Expenditures/Expenses			
Current			
Economic development			
Administration	$ 52,043	$ -	$ 52,043
Rehabilitation	13,207	347,153	360,360
Transportation	61,727	-	61,727
Debt service			
Principal	189,178	(189,178)	-
Total Expenditures/Expenses	**$ 316,155**	**$ 157,975**	**$ 474,130**
Net Change in Fund Balance/Net Assets	**$ 40,303**	**$ 1,410,046**	**$ 1,450,349**
Fund Balance/Net Assets - January 1	**60,520**	**5,919,733**	**5,980,253**
Fund Balance/Net Assets - December 31	**$ 100,823**	**$ 7,329,779**	**$ 7,430,602**

Reconciliation of the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	
Net change in fund balance	**$ 40,303**
In the funds, 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 statements and the statement of activities is the increase or decrease in revenues deferred as unavailable.	(9,469)
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 depreciation expense exceeded capital outlay in the current period.	(347,153)
The fair value of capital asset donations are reported as revenues in the statement of activities but are not reported in governmental funds.	1,577,490
Incurring long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net assets. The adjustment is the payments on debt.	189,178
Change in Net Assets of Governmental Activities	**$ 1,450,349**

The notes to the financial statements are an integral part of this statement.

MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA

EXHIBIT 3

GOVERNMENTAL FUND BALANCE SHEET AND STATEMENT OF NET ASSETS
DECEMBER 31, 2009

	General Fund	Adjustments	Governmental Activities
Assets			
Cash and pooled investments	$ 92,890	$ -	$ 92,890
Accounts receivable	45,994	-	45,994
Capital assets			
Non-depreciable	-	591,000	591,000
Depreciable - net	-	11,732,715	11,732,715
Total Assets	**$ 138,884**	**$ 12,323,715**	**$ 12,462,599**
Liabilities and Fund Balance/Net Assets			
Liabilities			
Current liabilities			
Accounts payable	$ 45,585	$ -	$ 45,585
Long-term liabilities			
Due within one year	-	40,000	40,000
Due in more than one year	-	5,143,849	5,143,849
Total Liabilities	**$ 45,585**	**$ 5,183,849**	**$ 5,229,434**
Fund Balance			
Unreserved			
Undesignated	93,299	**$ (93,299)**	
Net Assets			
Invested in capital assets - net of related debt		$ 7,139,866	$ 7,139,866
Unrestricted		93,299	93,299
Total Net Assets		**$ 7,233,165**	**$ 7,233,165**
Total Liabilities and Fund Balance/Net Assets	**$ 138,884**	**$ 12,323,715**	**$ 12,462,599**

Reconciliation of the General Fund Balance to Net Assets

Fund Balance - General Fund	$ 93,299
Capital assets are reported in the Statement of Net Assets but not in the Fund Balance Sheet.	12,323,715
Long-term liabilities are reported in the Statement of Net Assets but not in the Fund Balance Sheet.	(5,183,849)
Net Assets - Governmental Activities	**$ 7,233,165**

The notes to the financial statements are an integral part of this statement.

MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA

EXHIBIT 4

GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE AND STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009

	General Fund	Adjustments	Governmental Activities
Revenues			
Charges for services	$ 117,240	$ -	$ 117,240
Investment earnings	2,922	-	2,922
Miscellaneous	111,440	-	111,440
Total Revenues	**$ 231,602**	**$ -**	**$ 231,602**
Expenditures/Expenses			
Current			
Economic development			
Administration	$ 62,296	$ -	$ 62,296
Rehabilitation	18,990	347,153	366,143
Transportation	600	-	600
Debt service			
Principal	157,240	(157,240)	-
Total Expenditures/Expenses	**$ 239,126**	**$ 189,913**	**$ 429,039**
Net Change in Fund Balance/Net Assets	**$ (7,524)**	**$ (189,913)**	**$ (197,437)**
Fund Balance/Net Assets - January 1	**100,823**	**7,329,779**	**7,430,602**
Fund Balance/Net Assets - December 31	**$ 93,299**	**$ 7,139,866**	**$ 7,233,165**

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

Net change in fund balance	**$ (7,524)**
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 depreciation expense exceeded capital outlay in the current period.	(347,153)
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 payments on debt.	157,240
Change in Net Assets of Governmental Activities	**$ (197,437)**

The notes to the financial statements are an integral part of this statement.

MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA

EXHIBIT 5

GOVERNMENTAL FUND BALANCE SHEET AND STATEMENT OF NET ASSETS
DECEMBER 31, 2010

	General Fund	Adjustments	Governmental Activities
Assets			
Cash and pooled investments	$ 118,477	$ -	$ 118,477
Accounts receivable	48,046	-	48,046
Capital assets			
Non-depreciable	-	5,612,936	5,612,936
Depreciable - net	-	11,385,562	11,385,562
Total Assets	**$ 166,523**	**$ 16,998,498**	**$ 17,165,021**
Liabilities and Fund Balance/Net Assets			
Liabilities			
Current liabilities			
Accounts payable	$ 47,085	$ -	$ 47,085
Deferred revenue - unearned	3,416	-	3,416
Long-term liabilities			
Due within one year	-	40,000	40,000
Due in more than one year	-	4,986,579	4,986,579
Total Liabilities	**$ 50,501**	**$ 5,026,579**	**$ 5,077,080**
Fund Balance			
Unreserved			
Undesignated	116,022	**$ (116,022)**	
Net Assets			
Invested in capital assets - net of related debt		$ 11,971,919	$ 11,971,919
Unrestricted		116,022	116,022
Total Net Assets		**$ 12,087,941**	**$ 12,087,941**
Total Liabilities and Fund Balance/Net Assets	**$ 166,523**	**$ 16,998,498**	**$ 17,165,021**

Reconciliation of the General Fund Balance to Net Assets

Fund Balance - General Fund	$ 116,022
Capital assets are reported in the Statement of Net Assets but not in the Fund Balance Sheet.	16,998,498
Long-term liabilities are reported in the Statement of Net Assets but not in the Fund Balance Sheet.	(5,026,579)
Net Assets - Governmental Activities	**$ 12,087,941**

The notes to the financial statements are an integral part of this statement.

MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA

EXHIBIT 6

GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE AND STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2010

	General Fund	Adjustments	Governmental Activities
Revenues			
Charges for services	$ 117,270	$ -	$ 117,270
Investment earnings	164	-	164
Miscellaneous	129,416	-	129,416
Capital contributions	-	5,021,936	5,021,936
Total Revenues	**$ 246,850**	**$ 5,021,936**	**$ 5,268,786**
Expenditures/Expenses			
Current			
Economic development			
Administration	$ 45,742	$ -	$ 45,742
Rehabilitation	20,544	347,153	367,697
Transportation	571	-	571
Debt service			
Principal	157,270	(157,270)	-
Total Expenditures/Expenses	**$ 224,127**	**$ 189,883**	**$ 414,010**
Net Change in Fund Balance/Net Assets	**$ 22,723**	**$ 4,832,053**	**$ 4,854,776**
Fund Balance/Net Assets - January 1	**93,299**	**7,139,866**	**7,233,165**
Fund Balance/Net Assets - December 31	**$ 116,022**	**$ 11,971,919**	**$ 12,087,941**

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

Net change in fund balance	**$ 22,723**
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 depreciation expense exceeded capital outlay in the current period.	(347,153)
The fair value of capital asset donations are reported as revenues in the statement of activities but are not reported in governmental funds.	5,021,936
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 payments on debt.	157,270
Change in Net Assets of Governmental Activities	**$ 4,854,776**

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008, 2009, AND 2010

1. Summary of Significant Accounting Policies

The Minnesota Valley Regional Rail Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the years ended December 31, 2008, 2009, and 2010. 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 Rail Authority are discussed below.

A. Financial Reporting Entity

The Minnesota Valley Regional Rail Authority was established June 21, 1982, under the Regional Railroad Authorities Act, Minn. Stat. § 398A.03. It is governed by a Board composed of one member from the Boards of Commissioners of Carver County, Redwood County, Renville County, Sibley County, and Yellow Medicine County, and a representative from the Shipper's Association. The 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, 2, 3, 4, 5, and 6. 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.

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 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 to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt 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 Rail Authority's policy to use restricted resources first and then unrestricted resources as needed.

D. Budgetary Data

The Board of the Minnesota Valley Regional Rail Authority adopts estimated revenue and expenditure budgets for the General Fund on the modified accrual basis of accounting. The budget is adopted on a basis consistent with generally accepted accounting principles.

1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

Deposits and investments are reported at their fair value at December 31, 2008, 2009, and 2010, based on market price.

2. Receivables

The financial statements of 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 are to be recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are to be recorded at estimated fair 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 the assets' lives are not capitalized.

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

Assets	Years
Land improvements	40
Buildings	20
Machinery and equipment	5

The Minnesota Valley Regional Rail Authority does not maintain capital asset records or have a capital asset capitalization policy. The amounts presented in the financial statements and notes are based on previously reported totals with additions based on payments for projects administered by the Minnesota Department of Transportation.

1. Summary of Significant Accounting Policies

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

4. Deferred Revenue

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

5. Long-Term Liabilities

Long-term liabilities are not reported in the fund. The General Fund reports only liabilities 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 subject to change. The Authority reported no reservations or designations for the years ended December 31, 2008, 2009, and 2010.

7. Use of Estimates

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

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The General Fund had expenditures in excess of budget in each of the years ended December 31, 2008 and 2009:

	Expenditures	Budget	Excess
2008	$ 316,155	$ 258,249	$ 57,906
2009	239,126	222,750	16,376

3. Detailed Notes

A. Assets

1. Deposits and Investments

The following table presents the Authority's cash and deposit balances at December 31, 2008:

Checking	$ 35,801
Certificates of deposit	65,000
Total Cash and Investments	$ 100,801

The following table presents the Authority's cash and deposit balances at December 31, 2009:

Checking	$ 30,085
Certificates of deposit	62,805
Total Cash and Investments	$ 92,890

The following table presents the Authority's cash and deposit balances at December 31, 2010:

Checking	$ 55,672
Certificates of deposit	62,805
Total Cash and Investments	$ 118,477

3. Detailed Notes

A. Assets

1. Deposits and Investments (Continued)

During the years ended December 31, 2008, 2009, and 2010, the Authority had no investments other than certificates of deposit.

a. Deposits

The 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 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 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 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 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, 2008, 2009, and 2010, the Authority's deposits were not exposed to custodial credit risk.

3. Detailed Notes

   A. Assets

      1. Deposits and Investments (Continued)

         b. Investments

The 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;

(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.

3. Detailed Notes

   A. Assets

      1. Deposits and Investments

         b. Investments (Continued)

            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. The Authority does not have a policy to address this risk. On December 31, 2008, 2009, and 2010, the Authority's investments were not exposed to custodial credit risk.

            Concentration of Credit Risk

            The concentration of credit risk is the risk of loss that may be caused by the Authority's investment in a single issuer. The Authority does not have a policy to address this risk.

            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. The Authority does not have a policy to address this risk.

            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. The Authority does not have a policy to address this risk.

      2. Due From Other Governments

         There were no amounts due from other governments at December 31, 2008, 2009, or 2010.

3. Detailed Notes

A. Assets (Continued)

3. Capital Assets (Unaudited)

Capital asset activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 591,000	$ -	$ -	$ 591,000
Construction in progress	1,960,731	-	1,960,731	-
Total capital assets not depreciated	$ 2,551,731	$ -	$ 1,960,731	$ 591,000
Capital assets depreciated				
Land improvements	$ 10,221,903	$ 3,538,221	$ -	$ 13,760,124
Buildings	63,000	-	-	63,000
Machinery and equipment	4,000	-	-	4,000
Total capital assets depreciated	$ 10,288,903	$ 3,538,221	$ -	$ 13,827,124
Less: accumulated depreciation for				
Land improvements	$ 1,374,053	$ 344,003	$ -	$ 1,718,056
Buildings	22,050	3,150	-	25,200
Machinery and equipment	4,000	-	-	4,000
Total accumulated depreciation	$ 1,400,103	$ 347,153	$ -	$ 1,747,256
Total capital assets depreciated, net	$ 8,888,800	$ 3,191,068	$ -	$ 12,079,868
Governmental Activities Capital Assets, Net	$ 11,440,531	$ 3,191,068	$ 1,960,731	$ 12,670,868

Capital asset activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 591,000	$ -	$ -	$ 591,000
Capital assets depreciated				
Land improvements	$ 13,760,124	$ -	$ -	$ 13,760,124
Buildings	63,000	-	-	63,000
Machinery and equipment	4,000	-	-	4,000
Total capital assets depreciated	$ 13,827,124	$ -	$ -	$ 13,827,124

3. Detailed Notes

A. Assets

3. Capital Assets (Unaudited) (Continued)

	Beginning Balance	Increase	Decrease	Ending Balance
Less: accumulated depreciation for				
Land improvements	$ 1,718,056	$ 344,003	$ -	$ 2,062,059
Buildings	25,200	3,150	-	28,350
Machinery and equipment	4,000	-	-	4,000
Total accumulated depreciation	$ 1,747,256	$ 347,153	$ -	$ 2,094,409
Total capital assets depreciated, net	$ 12,079,868	$ (347,153)	$ -	$ 11,732,715
Governmental Activities Capital Assets, Net	$ 12,670,868	$ (347,153)	$ -	$ 12,323,715

Capital asset activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	$ 591,000	$ -	$ -	$ 591,000
Construction in progress	-	5,021,936	-	5,021,936
Total capital assets not depreciated	$ 591,000	$ 5,021,936	$ -	$ 5,612,936
Capital assets depreciated				
Land improvements	$ 13,760,124	$ -	$ -	$ 13,760,124
Buildings	63,000	-	-	63,000
Machinery and equipment	4,000	-	-	4,000
Total capital assets depreciated	$ 13,827,124	$ -	$ -	$ 13,827,124
Less: accumulated depreciation for				
Land improvements	$ 2,062,059	$ 344,003	$ -	$ 2,406,062
Buildings	28,350	3,150	-	31,500
Machinery and equipment	4,000	-	-	4,000
Total accumulated depreciation	$ 2,094,409	$ 347,153	$ -	$ 2,441,562
Total capital assets depreciated, net	$ 11,732,715	$ (347,153)	$ -	$ 11,385,562
Governmental Activities Capital Assets, Net	$ 12,323,715	$ 4,674,783	$ -	$ 16,998,498

Depreciation expense of $347,153 was charged to economic development for the years ended December 31, 2008, 2009, and 2010.

3. Detailed Notes

A. Assets (Continued)

4. Receivables

The Authority did not have any receivables scheduled to be collected beyond one year as of December 31, 2008, 2009, or 2010.

B. Liabilities

Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
State loan	$ 4,800,000	$ -	$ 6,462	$ 4,793,538	$ - *
Shipper's loan	358,531	-	130,980	227,551	- *
Operator loan	360,000	-	40,000	320,000	40,000
County loan	11,736	-	11,736	-	-
Total	$ 5,530,267	$ -	$ 189,178	$ 5,341,089	$ 40,000

Long-term liability activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
State loan	$ 4,793,538	$ -	$ -	$ 4,793,538	$ - *
Shipper's loan	227,551	-	117,240	110,311	- *
Operator loan	320,000	-	40,000	280,000	40,000
Total	$ 5,341,089	$ -	$ 157,240	$ 5,183,849	$ 40,000

Long-term liability activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
State loan	$ 4,793,538	$ -	$ 6,959	$ 4,786,579	$ - *
Shipper's loan	110,311	-	110,311	-	- *
Operator loan	280,000	-	40,000	240,000	40,000
Total	$ 5,183,849	$ -	$ 157,270	$ 5,026,579	$ 40,000

*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 will be set up.

3. Detailed Notes

B. Liabilities

Changes in Long-Term Liabilities (Continued)

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 10 percent, up to $600,000; and the Authority will provide 10 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.

Annual debt service requirements to maturity for the operator loan as of December 31, 2010, are:

	Operator
2011	$ 40,000
2012	40,000
2013	40,000
2014	40,000
2015	40,000
2016	40,000
Total	$ 240,000

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 Intergovernmental Trust (MCIT); formerly the Minnesota Counties Insurance Trust. MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. 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.

5. Gain Contingency

The Minnesota Valley Regional Rail Authority ended litigation with Redwood County Telephone Company with a settlement agreement signed in October 2010. This agreement includes a one-time $30,000 payment from Redwood County Telephone Company that was deposited in a trust account in 2010 and will remain there until attorney fees are determined and paid. This payment was not reported as a receivable on the statement of net assets of the Minnesota Valley Regional Rail Authority at December 31, 2010, because of the contingent nature of the receivable.

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REQUIRED SUPPLEMENTARY INFORMATION

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MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA

EXHIBIT A-1

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	**Final**	**Amounts**	**Final Budget**
Revenues				
Intergovernmental	$ 61,163	$ 61,163	$ 52,906	$ (8,257)
Charges for services	92,000	92,000	130,980	38,980
Investment earnings	1,000	1,000	151	(849)
Miscellaneous	96,300	96,300	172,421	76,121
Total Revenues	**$ 250,463**	**$ 250,463**	**$ 356,458**	**$ 105,995**
Expenditures				
Current				
Economic development				
Administration	$ 39,650	$ 39,650	$ 52,043	$ (12,393)
Rehabilitation	15,000	15,000	13,207	1,793
Transportation	61,863	61,863	61,727	136
Debt service				
Principal	141,736	141,736	189,178	(47,442)
Total Expenditures	**$ 258,249**	**$ 258,249**	**$ 316,155**	**$ (57,906)**
Change in Fund Balance	**$ (7,786)**	**$ (7,786)**	**$ 40,303**	**$ 48,089**
Fund Balance - January 1	**60,520**	**60,520**	**60,520**	**-**
Fund Balance - December 31	**$ 52,734**	**$ 52,734**	**$ 100,823**	**$ 48,089**

The notes to the required supplementary information are an integral part of this schedule.

MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA

EXHIBIT A-2

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Charges for services	$ 120,000	$ 120,000	$ 117,240	$ (2,760)
Investment earnings	300	300	2,922	2,622
Miscellaneous	103,200	103,200	111,440	8,240
Total Revenues	**$ 223,500**	**$ 223,500**	**$ 231,602**	**$ 8,102**
Expenditures				
Current				
Economic development				
Administration	$ 47,050	$ 47,050	$ 62,296	$ (15,246)
Rehabilitation	15,000	15,000	18,990	(3,990)
Transportation	700	700	600	100
Debt service				
Principal	160,000	160,000	157,240	2,760
Total Expenditures	**$ 222,750**	**$ 222,750**	**$ 239,126**	**$ (16,376)**
Change in Fund Balance	**$ 750**	**$ 750**	**$ (7,524)**	**$ (8,274)**
Fund Balance - January 1	**100,823**	**100,823**	**100,823**	**-**
Fund Balance - December 31	**$ 101,573**	**$ 101,573**	**$ 93,299**	**$ (8,274)**

The notes to the required supplementary information are an integral part of this schedule.

MINNESOTA VALLEY REGIONAL RAIL AUTHORITY
REDWOOD FALLS, MINNESOTA

EXHIBIT A-3

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Charges for services	$ 120,000	$ 120,000	$ 117,270	$ (2,730)
Investment earnings	300	300	164	(136)
Miscellaneous	113,700	113,700	129,416	15,716
Total Revenues	**$ 234,000**	**$ 234,000**	**$ 246,850**	**$ 12,850**
Expenditures				
Current				
Economic development				
Administration	$ 57,925	$ 57,925	$ 45,742	$ 12,183
Rehabilitation	12,500	12,500	20,544	(8,044)
Transportation	700	700	571	129
Debt service				
Principal	160,000	160,000	157,270	2,730
Total Expenditures	**$ 231,125**	**$ 231,125**	**$ 224,127**	**$ 6,998**
Change in Fund Balance	**$ 2,875**	**$ 2,875**	**$ 22,723**	**$ 19,848**
Fund Balance - January 1	**93,299**	**93,299**	**93,299**	**-**
Fund Balance - December 31	**$ 96,174**	**$ 96,174**	**$ 116,022**	**$ 19,848**

The notes to the required supplementary information are an integral part of this schedule.

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NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 2008, 2009, AND 2010

1. General Budget Policies

The Board of the Minnesota Valley Regional Rail Authority adopts an estimated revenue and expenditure budget for the General Fund. The expenditure budget is approved at the fund level.

The budgets may be amended or modified at any time by the Board. Expenditures may not legally exceed budgeted appropriations. Comparisons of final budgeted revenues and expenditures to actual are presented in the required supplementary information for the General Fund.

2. Budget Basis of Accounting

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

3. Budget Amendments

The Authority did not amend any of its expenditure budgets during 2008, 2009, or 2010.

4. Excess of Expenditures Over Budget

The General Fund had expenditures in excess of budget in each of the years ended December 31, 2008 and 2009:

	Expenditures	Budget	Excess
2008	$ 316,155	$ 258,249	$ 57,906
2009	239,126	222,750	16,376

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Management and
Compliance Section

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SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEARS ENDED DECEMBER 31, 2008, 2009, AND 2010

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

A. COMPLIANCE

ITEM ARISING THIS YEAR

10-1 Debt Covenant Violation

The Minnesota Valley Regional Rail Authority does not have sufficient insurance on the rail line in accordance with the requirements of the mortgage between the Minnesota Valley Regional Rail Authority, the State of Minnesota, and MinnRail, Inc.

Mortgage document A307797, signed in 2002, states the mortgagor (the Authority) covenants with the mortgagees "To keep all building, improvements and fixtures now or later located on or a part of the Property insured against loss by fire, extended coverage perils, vandalism, malicious mischief and, if applicable, steam boiler explosion, for at least the amount of five million, four hundred thousand dollars ($5,400,000) at all times while any amount remains unpaid under this Mortgage."

At the end of 2010, $4,786,579 of debt remained outstanding on the mortgage. The Authority purchased property coverage through the Minnesota Counties Intergovernmental Trust (MCIT) for 2010 with a coverage limit of $223,976.

We recommend the Authority obtain necessary insurance on the rail line to comply with the provisions of the mortgage and to ensure the rail line would be covered if damage would occur. We also recommend the Authority inform the mortgagees the insurance requirements from the mortgage have not been met.

Client's Response:

We are having our attorney check into this with MCIT.

B. INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

00-1 Internal Accounting Controls

Due to the Minnesota Valley Regional Rail 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 continue to implement oversight procedures to ensure that the internal control policies and procedures are being implemented.

Client's Response:

MVRRA understands the lack of segregation but the staff is unable to sign any checks without board approval and the financials are reviewed at each meeting. The Secretary/Treasurer will now review and sign off on the bank reconciliation as well as the minutes.

07-1 Financial Reporting/Audit Adjustments

Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Also, management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

The Authority is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of the financial statements is the responsibility of the Authority's management. Financial statement preparation in accordance with GAAP requires internal controls over both: (1) recording, processing, and summarizing accounting data (for example, maintaining internal books and records); and (2) preparing and reporting appropriate government-wide and fund financial statements, including the related notes to the financial statements.

Management has requested that the Office of the State Auditor prepare the annual financial statements and related notes. This arrangement is not unusual for organizations the size of the Minnesota Valley Regional Rail Authority. These decisions were based on the availability of the Authority's staff and the cost benefit of using our expertise.

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 of the financial statements on a timely basis. During our audit, we proposed numerous adjustments to convert the organization's financial records to the financial statements as reported.

We recommend the Board be mindful that limited staffing causes inherent risks in safeguarding the Authority's assets and proper reporting of its financial activity. We recommend the Board continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls. We also recommend the Board review internal controls currently in place, then design and implement procedures to improve internal control over financial reporting to detect misstatements in the financial statements. The updated controls should include review of the balances and supporting documentation by a qualified individual to identify potential misstatements.

Client's Response:

MVRRA went from no software program to Quickbooks as a way to better do financial reporting. If you have another way that you feel would serve us better, please recommend.

07-2 Capital Assets Policies and Procedures

For financial reporting and asset management purposes, the Authority is required to keep records of its capital assets, including infrastructure. The Authority does not maintain its capital asset records on a separate system. Capital asset policies, for use by the Authority to maintain the capital assets, have not been formally approved. A capital assets policy should be adopted that defines the Authority's accounting policies over capital assets, such as capitalization thresholds, useful lives, and depreciation methods.

We recommend the Authority's Board establish a capital assets policy to define the Authority's accounting policies over capital assets. The policy should establish procedures to identify capital asset additions and deletions, to accurately estimate useful lives, and to address the point when useful lives of current capital assets should be reconsidered. We also recommend the Authority keep detailed records of capital assets and the corresponding depreciation, including balances at the beginning of the year, current year additions and disposals, and balances at the end of the year. Capital asset balances and activity should be recorded in the general ledger.

<u>Client's Response</u>:

We will review this to our attorney -- we don't have a capital assets policy.

<u>ITEMS ARISING THIS YEAR</u>

10-2 <u>Documenting and Monitoring Internal Controls</u>

Management is responsible for the Minnesota Valley Regional Rail Authority's internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting. The risk assessment is intended to determine if the internal controls that have been established by management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided. Although the Minnesota Valley Regional Rail Authority may informally assess risks and adjust internal control procedures to address those risks, there are no formal procedures or documentation of those procedures in place.

At a minimum, the following significant internal control areas, with associated policies and procedures, should be documented:

- cash activities;
- capital assets (capitalization process and related depreciation);
- major funding sources (intergovernmental revenues, charges for services, and miscellaneous items); and
- expense/expenditure processing.

We recommend that management document the significant internal controls in its accounting system, including an assessment of risk and the processes used to minimize the risks. We also recommend that a formal plan be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

Cash activities -- Staff records payments immediately into Quickbooks upon receipt and all checks are deposited at the bank the same day. The deposit slip is attached in the deposit book for back reference. Checks are approved and paid monthly following the MVRRA meeting the 3rd Wednesday of each month. The Board has designated a budget committee which provides the financial oversight for activities of MVRRA including the CD renewal. Staff has access to online banking for bank statements and reconciliation and to check on EFT payments to MVRRA from clients.

10-3 Record Retention

During our audit, we were not able to view detail on insurance coverage in place for 2008 and 2009 or examine invoice detail in the Authority's general ledger for an amount recorded as a receivable in one version of the general ledger we were provided. The Administrator reported she had shredded documents detailing insurance coverage in place for years before 2010 and deleted the invoice detail for a receivable within QuickBooks, which resulted in no record being kept in the general ledger of the prior amount owed or the amount written off. We also were not provided an approved record retention policy.

Public officers are required by Minn. Stat. § 15.17 to make and preserve all records necessary to a full understanding of their official activities. This includes records relating to the transaction of public business. Insurance coverage documents and source documents used to record receivables fall within the requirements of Minn. Stat. § 15.17.

The requirement for local governments to manage their records is set forth in Minn. Stat. § 138.17, which does not allow local governments to destroy records unless they do so pursuant to a record retention schedule adopted by the Authority's Board and approved by the State Records Disposition Panel, or they do so by way of an approved disposition form submitted to the Records Disposition Panel.

An approved record retention schedule should be adopted to provide a process to identify, approve, store, and destroy records of the Authority. Receivables should be reviewed by the Board and procedures should be established to remove uncollectible accounts or those approved for write-off.

We recommend the Authority establish, adopt, and implement an approved record retention schedule which details procedures to ensure that all Authority records are retained for the period required by law. We also recommend the Board implement procedures to review changes to receivables and the general ledger and create a policy to provide guidelines for determining and recording uncollectible accounts or those approved for write-off.

Client's Response:

We will develop a Record Retention policy. In the future, we will bring to the board for approval uncollectible accounts or write-offs.

II. OTHER FINDINGS AND RECOMMENDATIONS

MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

10-4 Meeting Minutes

While on site to perform audit procedures in March 2011, we noted the following deficiencies with the Authority's meeting minutes:

- The official Board minutes were not signed as follows:
    - 2008: January and April to December,
    - 2009: January to December, and
    - 2010: February and April to September;
- minutes for October to December 2010 were not in the official minutes book;
- eight meetings during 2008 and 2009 included a closed session with no reason stated for closing the meeting to the public;
- detail of a quote approved on June 16, 2010, was not included in the Board minutes;

- the July 21, 2010, minutes contain multiple sections which end in the middle of a sentence; and

- the December meeting for 2008 and 2009 was not held at the normal location and the public was not properly notified of the new location.

The minutes should include detail of quotes being approved, such as the contractor, project type, and amount of the quote. Board minutes should be signed after they are approved at each meeting to show that they are the correct and complete record of business conducted at that meeting. The minutes should also be included in the Board minutes book as they are the official record of the meeting.

Minnesota Statutes § 13D.01 states, "Before closing a meeting, a public body shall state on the record the specific grounds permitting the meeting to be closed and describe the subject to be discussed."

We recommend the Authority implement procedures to ensure the minutes are complete, kept up to date and filed timely in the official record or minutes book. We also recommend that the minutes be signed by the preparer and then by the designated member of the Authority's Board once approved by the Board. Further, we recommend the Authority include in the minutes grounds for closing a meeting pursuant to Minn. Stat. § 13D.01, and make notice to the public for changes in meeting locations.

<u>Client's Response</u>:

All minutes will be signed when approved at the board meeting the following month. We will include in the minutes the reason for the closed sessions. We will include the quote in future meetings when necessary in the future. We will post when and if we move our meeting location to Jackpot Junction in December.

<u>OTHER ITEM FOR CONSIDERATION</u>

<u>GASB Statement 54</u>

The Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* is effective for the Minnesota Valley Regional Rail Authority for the year ending December 31, 2011. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions.

Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance are reserved, unreserved-designated, and unreserved-undesignated. Statement No. 54 replaces these components with nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not in spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).

- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.

- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.

- *Unassigned* - spendable amounts not contained in the other classifications.

The Minnesota Valley Regional Rail Authority should begin the process for implementing the new fund balance classifications. A key step in successfully implementing the new fund balance requirements is to plan ahead. The Minnesota Valley Regional Rail Authority can start with the following steps:

- Review the requirements of GASB Statement No. 54;
- Review current fund balance and compare to the new classifications;
- Reclassify January 1, 2011, fund balance using the new classifications;
- Review/update/prepare a comprehensive fund balance policy;
- Prepare appropriate board resolutions to commit fund balance; and
- If the Authority's Board intends to delegate authority to assign fund balance, prepare the resolutions delegating that authority.

Additional implementation steps could include deciding on how fund balance will be presented in the financials, i.e. detailed vs. aggregate methods; and developing the potential note disclosures. Additional guidance on GASB Statement No. 54 can be found on the Office of the State Auditor's website at:
http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_statement.pdf

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

Board Members
Minnesota Valley Regional Rail Authority

We have audited the financial statements of the governmental activities and the General Fund of the Minnesota Valley Regional Rail Authority as of and for the years ended December 31, 2008, 2009, and 2010, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 5, 2011. The report on governmental activities was qualified because the Minnesota Valley Regional Rail Authority does not maintain capital asset records, and we were not able to satisfy ourselves as to the carrying value of capital assets on hand, the carrying value of capital assets disposed of, and amounts calculated as depreciation expense. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Recommendations as item 07-1 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 00-1, 07-2, 10-2, and 10-3 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Minnesota Valley Regional Rail Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Recommendations as item 10-1.

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 Political Subdivisions*, 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 Political Subdivisions* 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 Rail Authority complied with the material terms and conditions of applicable legal provisions.

Also included in the Schedule of Findings and Recommendations is a management practices comment and an other item for consideration. We believe these recommendations and information to be of benefit to the Authority, and they are reported for that purpose.

The Minnesota Valley Regional Rail Authority's written responses to the compliance, internal control, and management practices findings identified in our audit have been included in the Schedule of Findings and Recommendations. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

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

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

May 5, 2011