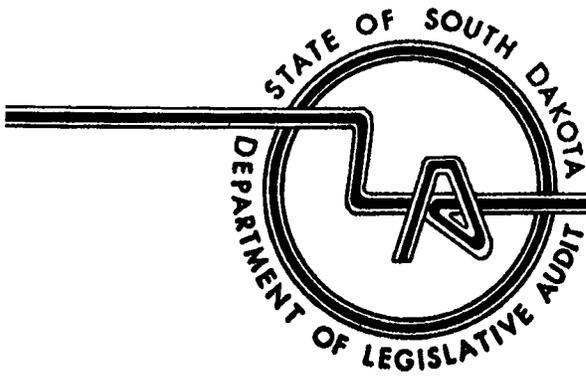


HAND COUNTY

REGIONAL RAILROAD AUTHORITY

January 1, 2011 Through December 31, 2014



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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

REPORT ON THE LIMITED REVIEW OF PROCEDURES AND CONTROLS IN EFFECT FOR HAND COUNTY REGIONAL RAILROAD AUTHORITY

Pursuant to a motion approved by the South Dakota State Railroad Board on January 15, 2014, the South Dakota State Railroad Board authorized the Department of Transportation to request the Department of Legislative Audit to conduct reviews of regional railroad authorities that currently have a loan or lease with the Department of Transportation.

We have performed the procedures enumerated below, which were agreed to by the management of the Department of Transportation. The sufficiency of these procedures is solely the responsibility of the management of the Department of Transportation. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

These procedures did not constitute an audit conducted in accordance with generally accepted government auditing standards and do not extend to, and we do not express an opinion on, any financial statements or reports of the regional railroad authorities. In addition, these procedures were not conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants.

1. We reviewed the Hand County Regional Railroad Authority's (Hand County Authority) procedures for appointing board members.

South Dakota Codified Law (SDCL) 49-17A-6 states:

The representatives of the subdivisions which are members of a regional railroad authority shall elect commissioners of the regional railroad authority. The number to be elected and their representation shall be provided for in the agreement. All commissioners of a regional railroad authority shall be elected for a term of three years. Vacancies shall be filled for the unexpired term in the same manner as the original elections. Each commissioner shall hold office until his or her successor has been elected and qualified.

We noted through communication with the Hand County Auditor and a Municipality of Miller city council member that neither of the political subdivisions had appointed/reappointed their representatives at the end of their three year terms in accordance with SDCL 49-17A-6.

We recommend that the Hand County Authority communicate with all member governments about the election/appointment of board members to ensure compliance with SDCL 49-17A-6.

2. We reviewed the Hand County Authority's procedures for holding meetings, including the preparation and posting of meeting agendas; the taking of meeting minutes; the retention procedures of the meeting minutes; and, the filing of required documentation with the Secretary of State's office.

We determined that when meetings of the Board are held, notice of the meeting is to be posted in the county courthouse and city finance office. Meetings are held on an as needed basis and the meeting location is at the On Hand Development board room. However, when we inquired of the County Auditor and a municipal council member about the notices they stated that agendas had never been posted. A complete set of minutes of the Hand County Authority board meetings held during the audit period could not be found. Hand County Authority Chairman Tony Rangel reviewed the minutes that could be located and stated that they had held more meetings than the three we could document. We determined that all necessary documentation had been filed with the Secretary of State's office.

We recommend that the Hand County Authority comply with open meetings laws, by posting a meeting notice and copy of the proposed agenda of board meetings at all member governments to ensure compliance with SDCL 1-25-1.1. We also recommend the Hand County Authority produce and retain minutes for each meeting of the Hand County Authority.

3. We reviewed the Hand County Authority's procedures related to the monitoring of cash assets.

The Hand County Authority has one bank account. The bank statements are delivered to Tony Rangel, Chairman who also receives revenues, makes deposits and reconciles the statement. The Hand County Authority does not maintain any basic accounting records.

We recommend that the Hand County Authority consider establishing some basic accounting records such as a General Ledger, Cash Receipts Journal and Cash Disbursements Journal to enhance monitoring of cash assets when financial activity warrants it.

4. We reviewed the Hand County Authority's procedures related to the receipting and depositing of revenues received.

The Hand County Authority is not exercising its power to levy and generate property tax revenues.

During the period reviewed, the Hand County Authority collected revenues from the Industry (grain terminal) for start-up costs and loan payments and from the State of South Dakota Department of Transportation for loan disbursements. The funds received from the State were in the form of ACH deposits made directly to the bank. Receipts were not issued for any revenue received by the Hand County Authority.

Formal accounting records are not maintained. The check register is used to record all revenues and expenditures for the Hand County Authority.

We recommend that the Hand County Authority consider establishing some basic accounting records and record any revenues in the accounting records by issuing receipts for cash and recording appropriate accounting entries for non-cash transactions.

5. We reviewed the Hand County Authority's procedures related to the expenditure process.

Expenditures are paid on an as needed basis. Two signatures are required on every check issued. The Chairman and Secretary/Treasurer have been designated to sign checks. The Board does not approve the bills prior to or subsequent to payment.

The Hand County Authority does not have formal accounting records. The check register is used to record all revenues and expenditures.

Our review also revealed that on September 6, 2012 the five board members were paid \$700 for meetings (7 meetings at \$100 per meeting) and again on December 20, 2012 the four board members were paid \$100 for a meeting. The minutes did not reflect the \$100 per meeting payments being approved by the board; however, they were unable to locate all minute notes. The stipend/meeting payments are a violation of SDCL 49-17A-10 which states: "A commissioner shall receive no compensation for his services but shall be reimbursed for the necessary expenses incurred in the discharge of his duties."

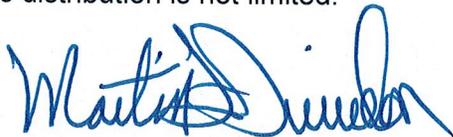
We recommend that the Hand County Authority consider establishing some basic accounting records and record any expenditures in the accounting records and record appropriate accounting entries for non-cash transactions.

We recommend that the Hand County Authority approve all expenditures of the authority either prior to or subsequent to payment and also consider reviewing all financial activity that has occurred since their previous meeting.

We recommend that the Hand County Authority board review the practice of paying per meeting amount to board members in order to ensure compliance with SDCL 49-17A-10.

6. We reviewed Hand County Authority's accounting records, bank statements and financial related activity from the Department of Transportation and prepared the attached Combined Report of Revenues, Expenditures and Changes in Fund Cash Balance from its inception in January 2012 through December 31, 2014 and yearly Report of Revenues, Expenditures and Changes in Fund Cash Balance for calendar years 2012, 2013 and 2014. We have also included a Schedule of Changes in Long-Term Debt from January 1, 2012 through December 31, 2014.

This report is intended solely for the information and use of the State Railroad Board and management of the Department of Transportation and is not intended to be and should not be used by anyone other than those parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in blue ink, appearing to read "Martin L. Guindon". The signature is fluid and cursive, with a large initial "M" and "G".

Martin L. Guindon, CPA
Auditor General

June 9, 2015

HAND COUNTY REGIONAL RAILROAD AUTHORITY
Combined Report of Revenues, Expenditures and Changes in Fund Cash Balance
January 1, 2012 through December 31, 2014

| | |
|---|---------------------------|
| Fund Cash Balance, January 1, 2012 | \$ 0.00 |
| Revenues: | |
| Payment from Industry | 600,000.00 |
| Promissory Note Proceeds | 3,528,000.00 |
| Other Revenues-Industry Contribution | <u>8,000.00</u> |
| Total Revenue | 4,136,000.00 |
| Expenditures: | |
| Debt Service Payment to State - Principal | 455,820.43 |
| Debt Service Payment to State - Interest | 144,179.57 |
| Legal Services | 389.55 |
| Board Fees | 3,900.00 |
| Payment to Industry | 3,528,000.00 |
| Other Expenditures | <u>55.20</u> |
| Total Expenditures | 4,132,344.75 |
| Excess Revenues Over (Under) Expenditures | <u>3,655.25</u> |
| Fund Cash Balance, December 31, 2014 | <u><u>\$ 3,655.25</u></u> |

HAND COUNTY REGIONAL RAILROAD AUTHORITY
Report of Revenues, Expenditures and Changes in Fund Cash Balance
January 1, 2014 through December 31, 2014

| | |
|---|--------------------------|
| Fund Cash Balance, January 1, 2014 | \$ 3,655.25 |
| Revenues: | |
| Payment from Industry | 300,000.00 |
| Promissory Note Proceeds | 0.00 |
| Other Revenues | 0.00 |
| | <hr/> |
| Total Revenue | 300,000.00 |
| Expenditures: | |
| Debt Service Payment to State - Principal | 235,122.51 |
| Debt Service Payment to State - Interest | 64,877.49 |
| Legal Services | 0.00 |
| Accounting Services | 0.00 |
| Payment to Industry | 0.00 |
| Other Expenditures | 0.00 |
| | <hr/> |
| Total Expenditures | 300,000.00 |
| Excess Revenues Over (Under) Expenditures | <hr/> 0.00 |
| Fund Cash Balance, December 31, 2014 | <hr/> <u>\$ 3,655.25</u> |

HAND COUNTY REGIONAL RAILROAD AUTHORITY
Report of Revenues, Expenditures and Changes in Fund Cash Balance
January 1, 2013 through December 31, 2013

| | |
|---|--------------------------|
| Fund Cash Balance, January 1, 2013 | \$ 3,655.25 |
| Revenues: | |
| Payment from Industry | 300,000.00 |
| Promissory Note Proceeds | 0.00 |
| Other Revenues | 0.00 |
| | <hr/> |
| Total Revenue | 300,000.00 |
| Expenditures: | |
| Debt Service Payment to State - Principal | 220,697.92 |
| Debt Service Payment to State - Interest | 79,302.08 |
| Legal Services | 0.00 |
| Accounting Services | 0.00 |
| Payment to Industry | 0.00 |
| Other Expenditures | 0.00 |
| | <hr/> |
| Total Expenditures | 300,000.00 |
| Excess Revenues Over (Under) Expenditures | <hr/> 0.00 |
| Fund Cash Balance, December 31, 2013 | <hr/> <u>\$ 3,655.25</u> |

HAND COUNTY REGIONAL RAILROAD AUTHORITY
Report of Revenues, Expenditures and Changes in Fund Cash Balance
January 1, 2012 through December 31, 2012

| | |
|---|---------------------------|
| Fund Cash Balance, January 1, 2012 | \$ 0.00 |
| Revenues: | |
| Payment from Industry | 0.00 |
| Promissory Note Proceeds | 3,528,000.00 |
| Other Revenues-Industry Contribution | <u>8,000.00</u> |
| Total Revenue | 3,536,000.00 |
| Expenditures: | |
| Debt Service Payment to State - Principal | 0.00 |
| Debt Service Payment to State - Interest | 0.00 |
| Legal Services | 389.55 |
| Board Fees | 3,900.00 |
| Payment to Industry | 3,528,000.00 |
| Other Expenditures | <u>55.20</u> |
| Total Expenditures | 3,532,344.75 |
| Excess Revenues Over (Under) Expenditures | <u>3,655.25</u> |
| Fund Cash Balance, December 31, 2012 | <u><u>\$ 3,655.25</u></u> |

HAND COUNTY REGIONAL RAILROAD AUTHORITY
Schedule of Changes in Long-Term Debt
December 31, 2014

| | Beginning Balance January 1, 2012 | Debt Issued | | | | Ending Balance December 31, 2014 |
|----------------------------------|--|------------------------|-------------|---------------|---------------|---|
| | | | 2012 | 2013 | 2014 | |
| Promissory Note Payable # 714554 | \$ 0.00 | \$ 3,528,000.00 | \$ 0.00 | \$ 220,697.92 | \$ 235,122.51 | \$ 3,072,179.57 |

Note 1:

This promissory note was entered into on January 26, 2012 between the State of South Dakota through the State Railroad Board, the Hand County Regional Railroad Authority (Borrower) and the Harrold Terminal, LLC (Cosigner). The total amount of the note was \$3,528,000 at an interest rate of 2%, calling for \$300,000 annual payments beginning November 2, 2013 with the final payment of the remaining principal balance and any accrued interest on November 1, 2019. The purpose of the loan was for the construction of an industrial loop track for a grain loading facility near Miller, SD.