

**MRC**

**REGIONAL RAILROAD AUTHORITY**

**January 1, 2011 Through December 31, 2014**



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AUDITOR GENERAL

## REPORT ON THE LIMITED REVIEW OF PROCEDURES AND CONTROLS IN EFFECT FOR MRC 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 MRC Regional Railroad Authority's (MRC 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 County Auditor that Pennington County had not appointed a board member in accordance with SDCL 49-17A-6. We determined that the remaining MRC Authority board members were appointed by member subdivisions in accordance with SDCL 49-17A-6.

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

2. We reviewed the MRC 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 seven member county courthouses. Meetings are held on an as needed basis and the meeting location is usually the Anchor Grill in Chamberlain or over the phone. However, when we inquired of the member counties' County Auditors about the notices none of them ever recalled receiving or posting such notices. Minutes of the MRC Authority board meetings are retained and are available from Pat Hansen, District III. We also determined that all necessary documentation had been filed with the Secretary of State's office.

**We recommend that the MRC 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.**

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

The MRC Authority has four bank accounts at four different financial institutions. These accounts include a checking account, two savings accounts and a money market account. The bank statements are delivered to District III and handled by Pat Hansen (accounting agent), the MRC Authority's accountant. All revenues are sent to the accounting agent who makes the deposit. Transfers between banks are made by writing a check, and are initiated by the accounting agent. The authorized board members would have to approve of the transfer by signing the check. The MRC Authority's accounting agent uses QuickBooks to track the cash assets, revenues and expenditures of the MRC Authority.

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

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

During the period reviewed, the MRC Authority collected revenues from a number of different sources as the leases and subleases with the State of South Dakota, the MRC Authority and the short line operator have changed. The agreement covering the first part of the period being reviewed had the MRC Authority receiving 2.5% of gross revenues of the short line operator, along with \$57,000 of the Universal Packaging revenues to be used to pay back a loan. After the loan was paid off, the MRC Authority would only receive 2.5% gross revenues, which then changed to 1.5% gross revenues in January 2012. The MRC Authority took out loans from the State of South Dakota in order to rehab the track, and the short line operator must now pay a \$50.00/car surcharge to the MRC Authority. These funds are to be used to repay the rehab loan.

The MRC Authority also collects interest earnings on the various bank accounts held.

Receipts are usually issued when funds come in to the MRC Authority's accounting agent and entries are recorded in the accounting records for receipts sent directly to the State as a payment on MRC Authority's behalf. The MRC Authority's accounting agent is responsible for depositing revenues that are sent directly to the accounting agent.

The MRC Authority's accounting agent uses QuickBooks to monitor the revenues of the MRC Authority.

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

Expenditures are paid on an as needed basis. Pat Hansen presents the bills at the meetings and they are then approved by the MRC Authority's board and listed in the minutes of the board. Checks are required to be signed by two of the three authorized board members. If a bill needs to be paid before a meeting can be held, Pat Hansen will pay the bill (check sent to board member for signatures on check) and approval will be granted at the next possible meeting. The non-cash transactions are recorded in the MRC Authority's accounting system.

The MRC Authority's accounting agent uses QuickBooks to monitor the expenditures of the MRC Authority.

6. We reviewed MRC 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 January 1, 2011 through December 31, 2014 and yearly Report of Revenues, Expenditures and Changes in Fund Cash Balance for calendar years 2011, 2012, 2013 and 2014. We have also included a Schedule of Changes in Long-Term Debt from January 1, 2011 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.



Martin L. Guindon, CPA  
Auditor General

June 9, 2015

**MRC REGIONAL RAILROAD AUTHORITY**  
**Combined Report of Revenues, Expenditures and Changes in Fund Cash Balance**  
**January 1, 2011 through December 31, 2014**

Fund Cash Balance, January 1, 2011	\$ 548,181.07
Revenues:	
Lease Revenue	96,029.51
Surcharge Revenue	90,752.25
Surcharge Revenue Paid Direct to State	176,800.00
Interest Income	2,063.27
Promissory Note Proceeds	2,700,000.00
Other Revenues	<u>1,249.12</u>
Total Revenue	3,066,894.15
Expenditures:	
Debt Service Payments to State - Principal	176,800.00
Other Payments to State	511,775.10
Legal Services	8,335.40
Accounting Services	13,483.71
Payment to Industries	2,700,000.00
Other Expenditures	<u>6,616.73</u>
Total Expenditures	<u>3,417,010.94</u>
Excess Revenues Over (Under) Expenditures	<u>(350,116.79)</u>
Fund Cash Balance, December 31, 2014	<u><u>\$ 198,064.28</u></u>

**MRC 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	\$ 199,156.92
Revenues:	
Lease Revenue	6,519.50
Surcharge Revenue	0.00
Surcharge Revenue Paid Direct to State	152,450.00
Interest Income	176.08
Promissory Note Proceeds	0.00
Other Revenues	<u>3.00</u>
Total Revenue	159,148.58
Expenditures:	
Debt Service Payments to State - Principal	152,450.00
Other Payments to State	0.00
Legal Services	1,422.00
Accounting Services	4,369.75
Payment to Industries	0.00
Other Expenditures	<u>1,999.47</u>
Total Expenditures	<u>160,241.22</u>
Excess Revenues Over (Under) Expenditures	<u>(1,092.64)</u>
Fund Cash Balance, December 31, 2014	<u><u>\$ 198,064.28</u></u>

**MRC 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	\$ 202,295.71
Revenues:	
Lease Revenue	11,629.65
Surcharge Revenue	0.00
Surcharge Revenue Paid Direct to State	24,350.00
Interest Income	199.51
Promissory Note Proceeds	0.00
Other Revenues	<u>2.00</u>
Total Revenue	36,181.16
Expenditures:	
Debt Service Payments to State - Principal	24,350.00
Other Payments to State	7,753.10
Legal Services	3,108.40
Accounting Services	2,381.69
Payment to Industries	0.00
Other Expenditures	<u>1,726.76</u>
Total Expenditures	<u>39,319.95</u>
Excess Revenues Over (Under) Expenditures	<u>(3,138.79)</u>
Fund Cash Balance, December 31, 2013	<u><u>\$ 199,156.92</u></u>

**MRC 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	\$ 168,470.88
Revenues:	
Lease Revenue	40,000.00
Surcharge Revenue	0.00
Surcharge Revenue Paid Direct to State	0.00
Interest Income	229.80
Promissory Note Proceeds	0.00
Other Revenues	<u>268.50</u>
Total Revenue	40,498.30
Expenditures:	
Debt Service Payments to State - Principal	0.00
Other Payments to State	677.00
Legal Services	1,522.50
Accounting Services	2,762.22
Payment to Industries	0.00
Other Expenditures	<u>1,711.75</u>
Total Expenditures	<u>6,673.47</u>
Excess Revenues Over (Under) Expenditures	<u>33,824.83</u>
Fund Cash Balance, December 31, 2012	<u><u>\$ 202,295.71</u></u>

**MRC REGIONAL RAILROAD AUTHORITY**  
**Report of Revenues, Expenditures and Changes in Fund Cash Balance**  
**January 1, 2011 through December 31, 2011**

Fund Cash Balance, January 1, 2011	\$ 548,181.07
Revenues:	
Lease Revenue	37,880.36
Surcharge Revenue	90,752.25
Surcharge Revenue Paid Direct to State	0.00
Interest Income	1,457.88
Promissory Note Proceeds	2,700,000.00
Other Revenues	<u>975.62</u>
Total Revenue	2,831,066.11
Expenditures:	
Debt Service Payments to State - Principal	0.00
Other Payments to State	503,345.00
Legal Services	2,282.50
Accounting Services	3,970.05
Payment to Industries	2,700,000.00
Other Expenditures	<u>1,178.75</u>
Total Expenditures	<u>3,210,776.30</u>
Excess Revenues Over (Under) Expenditures	<u>(379,710.19)</u>
Fund Cash Balance, December 31, 2011	<u><u>\$ 168,470.88</u></u>

**MRC REGIONAL RAILROAD AUTHORITY**  
**Schedule of Changes in Long-Term Debt**  
**December 31, 2014**

	Beginning Balance January 1, 2011	Debt Issued	Debt Payments				Ending Balance December 31, 2014
			2011	2012	2013	2014	
Promissory Note Payable (See Note 1)	\$ 0.00	\$ 2,700,000.00	\$ 0.00	\$ 0.00	\$ 24,350.00	\$ 152,450.00	\$ 2,523,200.00

Note 1:

This Promissory Note was entered into with the State of South Dakota on June 16, 2011. The total amount loaned was \$2,700,000.00. The purpose of the loan was for the reconstruction of the MRC rail line. The loan will be repaid with the proceeds of a \$50 per railcar surcharge for each railcar shipped to or from any industry located on the line (excluding Universal Packaging International, Inc.). No interest will be charged on this Promissory Note, and payments are to be made by February 1 of each year until the loan is repaid.