

**ABERDEEN-BROWN COUNTY**

**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 ABERDEEN-BROWN 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 Aberdeen-Brown County Regional Railroad Authority's (Aberdeen-Brown 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 Spink County Auditor and Aberdeen Municipal Attorney that Spink County and the Municipality of Aberdeen had not appointed a board member in accordance with SDCL 49-17A-6. We determined that the remaining three Aberdeen-Brown County Authority board members were appointed by member subdivisions in accordance with SDCL 49-17A-6.

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

We also noted the Aberdeen-Brown County Authority had not formally appointed its new registered agent, Aberdeen City Attorney Ron Wager as of the date of the review.

SDCL 49-17A-6 states:

A regional authority may appoint or elect an executive director, and such other officers, agents, and employees as it may determine. An authority may delegate its powers and duties to one or more of its officers, agents, or employees.

**We recommend the Aberdeen-Brown County Authority formally appoint its registered agent to ensure compliance with SDCL 49-17A-6.**

2. We reviewed the Aberdeen-Brown 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 meetings are held on an as needed basis, with the last meeting being held on April 27, 2012, at the Municipality of Aberdeen's facility to consider a railroad trust fund loan application. We communicated with the four member counties' County Auditors about whether they had received a notice or agenda for the meeting and none of them ever recalled receiving or posting a notice or agenda of the April 27, 2012 meeting. We communicated with the Municipality of Aberdeen's Finance Officer and he believed the notice and agenda was posted. Minutes of the Aberdeen-Brown County Authority board meetings are retained and are available from registered agent. We also determined that all necessary documentation had been filed with the Secretary of State's office.

**We recommend that the Aberdeen-Brown 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.**

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

The Aberdeen-Brown County Authority does not have any bank accounts.

Promissory note proceeds from the Department of Transportation were received in the form of a check, which was then endorsed by the Aberdeen-Brown County Authority and given to the industry for them to deposit.

The Aberdeen-Brown County Authority's registered agent does not maintain any basic accounting records or prepare a financial statement detailing promissory note proceeds and payments made by the industries directly to the Department of Transportation.

**We recommend that the Aberdeen-Brown 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.**

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

The Aberdeen-Brown County Authority receipts in no revenues and has no bank accounts for depositing.

Promissory note proceeds from the State of South Dakota come in the form of a check which is endorsed by the Aberdeen-Brown County Authority then given to the guarantor/industry for them to deposit. The Aberdeen-Brown County Authority's registered agent maintains no accounting records for receipts.

Loan payments made by the industries are not receipted in by the Aberdeen-Brown County Authority for payment to the State of South Dakota. The industries make the payments directly to the State.

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

During the period of our review we found no evidence the Aberdeen-Brown County Authority collected revenues from any other sources through leases and subleases.

**We recommend that the Aberdeen-Brown 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 Aberdeen-Brown County Authority's procedures related to the expenditure process.

The Aberdeen-Brown County Authority prepares no checks and has no bank accounts.

Promissory note proceeds from the State of South Dakota come in the form of a check which is endorsed by the Aberdeen-Brown County Authority then given to the guarantor/industry for them to deposit. The Aberdeen-Brown County Authority's accounting agent maintains no accounting records for expenditures.

Loan payments made by the industries are not receipted in by the Aberdeen-Brown County Authority for payment to the State of South Dakota. The industries make payments on the debt directly to the State.

Expenditures of the Aberdeen-Brown County Authority consisted of disbursing promissory note proceeds to the industries and the non-cash payments made by the industries directly to the State of South Dakota on Aberdeen-Brown County Authority loans from the State. We found no evidence of any other Aberdeen-Brown County Authority expenditures.

**We recommend that the Aberdeen-Brown 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.**

6. We reviewed Aberdeen-Brown County Regional Railroad Authority's records 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

**ABERDEEN-BROWN COUNTY 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	\$	0.00
Revenues:		
Payment from Industry (Paid Directly to State)		2,198,800.00
Promissory Note Proceeds		4,440,000.00
		4,440,000.00
Total Revenue		6,638,800.00
Expenditures:		
Debt Service Payment to State - Principal		1,795,378.99
Debt Service Payment to State - Interest		403,421.01
Payment to Industry		4,440,000.00
		4,440,000.00
Total Expenditures		6,638,800.00
Excess Revenues Over (Under) Expenditures		0.00
Fund Cash Balance, December 31, 2014	\$	0.00

**ABERDEEN-BROWN 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	\$	0.00
Revenues:		
Payment from Industry (Paid Directly to State)		717,825.00
Promissory Note Proceeds		0.00
		<hr/>
Total Revenue		717,825.00
Expenditures:		
Debt Service Payment to State - Principal		600,298.05
Debt Service Payment to State - Interest		117,526.95
Payment to Industry		0.00
		<hr/>
Total Expenditures		717,825.00
Excess Revenues Over (Under) Expenditures		<hr/> 0.00
Fund Cash Balance, December 31, 2014	<hr/> \$	<hr/> 0.00

**ABERDEEN-BROWN 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	\$ 0.00
Revenues:	
Payment from Industry (Paid Directly to State)	606,325.00
Promissory Note Proceeds	<u>1,440,000.00</u>
Total Revenue	2,046,325.00
Expenditures:	
Debt Service Payment to State - Principal	507,903.05
Debt Service Payment to State - Interest	98,421.95
Payment to Industry	<u>1,440,000.00</u>
Total Expenditures	2,046,325.00
Excess Revenues Over (Under) Expenditures	<u>0.00</u>
Fund Cash Balance, December 31, 2013	<u><u>\$ 0.00</u></u>

**ABERDEEN-BROWN 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 (Paid Directly to State)		606,325.00
Promissory Note Proceeds		0.00
		<u>0.00</u>
Total Revenue		606,325.00
Expenditures:		
Debt Service Payment to State - Principal		482,495.62
Debt Service Payment to State - Interest		123,829.38
Payment to Industry		0.00
		<u>0.00</u>
Total Expenditures		<u>606,325.00</u>
Excess Revenues Over (Under) Expenditures		<u>0.00</u>
Fund Cash Balance, December 31, 2012	\$	<u><u>0.00</u></u>

**ABERDEEN-BROWN COUNTY 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	\$	0.00
Revenues:		
Payment from Industry (Paid Directly to State)		268,325.00
Promissory Note Proceeds		3,000,000.00
		3,000,000.00
Total Revenue		3,268,325.00
Expenditures:		
Debt Service Payment to State - Principal		204,682.27
Debt Service Payment to State - Interest		63,642.73
Payment to Industry		3,000,000.00
		3,000,000.00
Total Expenditures		3,268,325.00
Excess Revenues Over (Under) Expenditures		0.00
Fund Cash Balance, December 31, 2011	\$	0.00

**ABERDEEN-BROWN COUNTY 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 #713086 (See Note 1)	\$ 1,391,118.65	\$ 0.00	\$ 204,682.27	\$ 214,194.25	\$ 224,087.98	\$ 234,283.99	\$ 513,870.16
Promissory Note Payable #714243 (See Note 2)		3,000,000.00		268,301.37	283,815.07	290,383.63	2,157,499.93
Promissory Note Payable #714605 (See Note 3)		1,440,000.00				75,630.43	1,364,369.57
<b>Total Long-Term Debt</b>	<b>\$ 1,391,118.65</b>	<b>\$ 4,440,000.00</b>	<b>\$ 204,682.27</b>	<b>\$ 482,495.62</b>	<b>\$ 507,903.05</b>	<b>\$ 600,298.05</b>	<b>\$ 4,035,739.66</b>

Note 1:

This promissory note effective on May 17, 2007 is between the State of South Dakota through the State Railroad Board, the Aberdeen - Brown County Regional Railroad Authority (Loanee) and North Central Farmers Elevator at Bowdle South Dakota (Development). The total amount loaned was \$2,117,986 at an interest rate of 4.555% paid back over a 10 year period. The purpose of the loan was for the construction of approximately 7,670 feet of loop track with two switches near Bowdle, South Dakota.

Note 2:

This promissory note entered into on July 1, 2010 is between the State of South Dakota through the State Railroad Board, the Aberdeen - Brown County Regional Railroad Authority (Loanee) and South Dakota Wheat Growers Association (Development). The total amount loaned was \$3,000,000 at an interest rate of 2.0 % paid back over a 10 year period. The purpose of the loan was for the construction of a 12,770 foot expansion to South Dakota Wheat Grower's existing siding near Roscoe, South Dakota.

Note 3:

This promissory note entered into on May 1, 2012 is between the State of South Dakota through the State Railroad Board, the Aberdeen - Brown County Regional Railroad Authority (Loanee) and Ochsner Real Estate Limited Partnership (Industry). The total amount loaned was \$1,440,000 at an interest rate of 2% paid back over a 15 year period. The purpose of the loan was for the construction of a 10,620 foot loop track at the Industries facility located near Aberdeen, South Dakota.