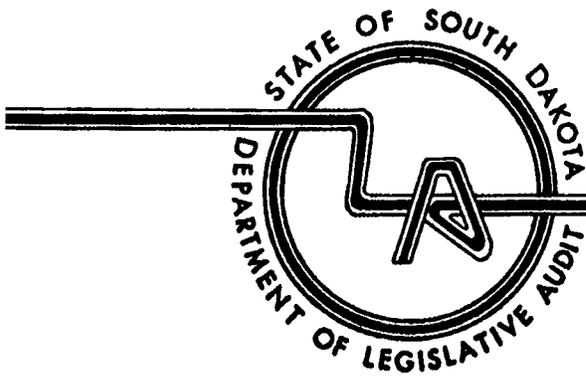


HUGHES COUNTY

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 HUGHES 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 Hughes County Regional Railroad Authority's (Hughes 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 Hughes County Authority that they have not appointed the fifth board member in accordance with SDCL 49-17A-6 or in accordance with their agreement establishing the Hughes County Authority. Article VI of the agreement establishing the Hughes County Authority states that the additional or fifth member is to be selected by joint agreement of the members.

We recommend that the Hughes County Authority properly appoint the fifth board member to ensure compliance with SDCL 49-17A-6 and with their agreement establishing the Hughes County Authority.

2. We reviewed the Hughes 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 when meetings of the Hughes County Authority are held, notice of the meeting is posted in the Hughes County courthouse. However, when we inquired of a Hughes County Authority board member representing the Municipality of Harrold as to whether a notice of the August 27, 2014 meeting was posted at the Municipality of Harrold's principal office he could not recall, but he said he received an agenda of the meeting. The Hughes County Finance Office (County Manager and Finance Officer) did not know if the Municipality of Harrold posted the agenda or whether they were instructed to do so. Minutes of the Hughes County Authority board meetings are retained by the Hughes County Finance Officer.

Prior to the August 27, 2014 meeting, the last meeting was October 9, 2009.

We recommend that the Hughes 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 Hughes County Authority's procedures related to the monitoring of cash assets.

The Hughes County Authority has two bank accounts at two different financial institutions. Both accounts are checking accounts. We found no evidence of any activity in one bank account, which had a January 1, 2011 balance of \$326.40 and a December 31, 2014 balance of \$326.40. The bank statements are delivered to the Hughes County Finance Office. All revenues are sent to the Hughes County Finance Office who makes the deposit. We found no evidence of any transfers between banks. The Hughes County Finance Office uses Excel spreadsheets to track cash assets. Through the use of an Excel spreadsheet the Hughes County Finance Office prepares a monthly balance sheet, a profit & loss statement showing net income for the month, and a cash flow report showing a beginning balance, deposits, checks, and an ending balance which can be compared to cash assets reported on the balance sheet. A separate bank reconciliation report is prepared for each bank account reconciling the bank statement balance to the book balance.

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

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

During the period reviewed, the Hughes County Authority collected revenues from Harrold Terminal LLC. These funds were used to repay the Department of

Transportation for a \$2,600,000.00 promissory note entered into on December 1, 2009 with the State of South Dakota through the State Railroad Board.

To monitor revenues the Hughes County Finance Office uses an Excel spreadsheet to create a profit & loss statement showing net income for the month, and a cash flow report showing beginning balance, deposits, checks, and an ending balance which can be compared to cash assets reported on the balance sheet.

Entries are recorded in these accounting records for the receipt of money from Harrold Terminal LLC and any other miscellaneous revenues received. Revenues are deposited by the Hughes County Finance Office.

The Hughes County Authority collects no interest earnings on the bank accounts held.

5. We reviewed the Hughes County Regional Railroad Authority's procedures related to the expenditure process.

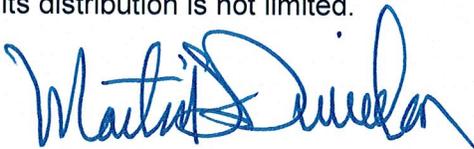
Expenses are paid on an as needed basis. When a bill needs to be paid the Hughes County Finance Office e-mails the board chairman and gets his approval. The Hughes County Finance Office then prepares the check, signs, and mails to the appropriate recipient.

The Hughes County Authority adopted a policy on September 9, 2009 that checks require two signatures. When we asked the Hughes County Finance Office if this was being done we were told "not always". The Hughes County Authority has not met often enough to approve claims during a board meeting.

To monitor expenditures the Hughes County Finance Office uses an Excel spreadsheet to create a profit & loss statement showing net income for the month, and a cash flow report showing beginning balance, deposits, checks, and an ending balance which can be compared to cash assets reported on the balance sheet.

6. We reviewed Hughes County Regional Railroad 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

HUGHES COUTY 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	\$ 600.65
Revenues:	
Payment from Industry	851,416.05
Other Revenues	<u>2,500.00</u>
Total Revenue	853,916.05
Expenditures:	
Debt Service Payment to State - Principal	685,895.03
Debt Service Payment to State - Interest	165,521.02
Legal Services	<u>494.00</u>
Total Expenditures	<u>851,910.05</u>
Excess Revenues Over (Under) Expenditures	<u>2,006.00</u>
Fund Cash Balance, December 31, 2014	<u><u>\$ 2,606.65</u></u>

HUGHES 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	\$ 600.65
Revenues:	
Payment from Industry	239,416.05
Other Revenues	<u>2,500.00</u>
Total Revenue	241,916.05
Expenditures:	
Debt Service Payment to State - Principal	204,214.97
Debt Service Payment to State - Interest	35,201.08
Legal Services	<u>494.00</u>
Total Expenditures	<u>239,910.05</u>
Excess Revenues Over (Under) Expenditures	<u>2,006.00</u>
Fund Cash Balance, December 31, 2014	<u><u>\$ 2,606.65</u></u>

HUGHES 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	\$ 600.65
Revenues:	
Payment from Industry	204,000.00
Other Revenues	0.00
	<hr/>
Total Revenue	204,000.00
Expenditures:	
Debt Service Payment to State - Principal	162,959.60
Debt Service Payment to State - Interest	41,040.40
Legal Services	0.00
	<hr/>
Total Expenditures	204,000.00
Excess Revenues Over (Under) Expenditures	<hr/> 0.00
Fund Cash Balance, December 31, 2013	<hr/> <u>\$ 600.65</u>

HUGHES 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	\$ 600.65
Revenues:	
Payment from Industry	204,000.00
Other Revenues	0.00
	<hr/>
Total Revenue	204,000.00
Expenditures:	
Debt Service Payment to State - Principal	160,035.48
Debt Service Payment to State - Interest	43,964.52
Legal Services	0.00
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Total Expenditures	204,000.00
	<hr/>
Excess Revenues Over (Under) Expenditures	0.00
	<hr/>
Fund Cash Balance, December 31, 2012	<u>\$ 600.65</u>

HUGHES 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	\$ 600.65
Revenues:	
Payment from Industry	204,000.00
Other Revenues	<u> </u>
Total Revenue	204,000.00
Expenditures:	
Debt Service Payment to State - Principal	158,684.98
Debt Service Payment to State - Interest	45,315.02
Legal Services	<u> </u> 0.00
Total Expenditures	<u>204,000.00</u>
Excess Revenues Over (Under) Expenditures	<u> </u> 0.00
Fund Cash Balance, December 31, 2011	<u><u>\$ 600.65</u></u>

HUGHES 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 #713980 (See Note 1)	\$ 2,321,360.40	\$ 0.00	\$ 158,684.98	\$ 160,035.48	\$ 162,959.60	\$ 204,214.97	\$ 1,635,465.37

Note 1:

This promissory note was entered into on December 1, 2009 between the State of South Dakota through the State Railroad Board, the Hughes County Regional Railroad Authority (Loanee), Harrold Terminal, LLC (Industry), and Harrold Grain Company, LLC, Charles K. Jepson, Dale Gilyard, and Randy Brown (Loan Guarantors). The total amount loaned was \$2,600,000 at an interest rate of 2 % paid back over a 15 year period. The purpose of the loan was for the construction of a new industrial looped siding and a spur near Harrold Grain Elevator in Harrold, South Dakota. Harrold Terminal LLC is making payments on the loan.