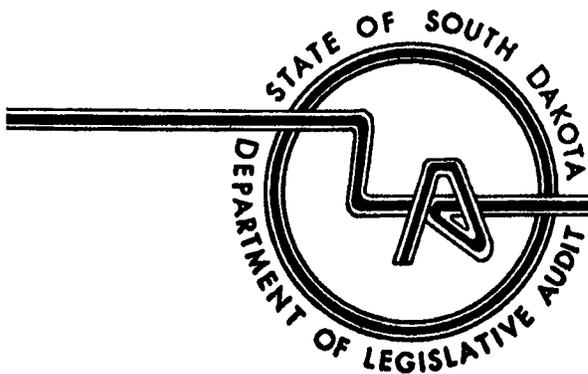


NAPA-PLATTE

REGIONAL RAILROAD AUTHORITY

January 1, 2011 Through December 31, 2014



427 SOUTH CHAPELLE
C/O 500 EAST CAPITOL
PIERRE SD 57501-5070
(605) 773-3595
FAX (605) 773-6454

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

REPORT ON THE LIMITED REVIEW OF PROCEDURES AND CONTROLS IN EFFECT FOR NAPA-PLATTE 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 Napa-Platte Regional Railroad Authority's (Napa-Platte 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 Auditors of the member counties that Charles Mix County stated that they had not appointed their board members in quite some time, with one of their board members being an original member, Bon Homme County appoints one of their county commissioners to the board and does this on a yearly basis, but the County Auditor did not know how or when the other two board

members were appointed and Yankton County appointed their board members in June 2012.

We recommend that the Napa-Platte 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 Napa-Platte 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 three member county courthouses. Meetings are held on an as needed basis and the meeting location is usually the Wipf & Cotton Law Office in Wagner, South Dakota. Minutes of the Board meetings are retained by the Registered Agent, Kenneth Cotton, and exist dating back to the inception of the Napa-Platte Authority. We also determined that Napa-Platte Authority had not filed the necessary documentation for adding Yankton County as a member of the Napa-Platte Authority with the Secretary of State's office.

We recommend that the Napa-Platte Authority file the necessary documentation adding Yankton County as a member of the Napa-Platte Authority.

3. We reviewed the Napa-Platte Authority's procedures related to the monitoring of cash assets.

The Napa-Platte Authority has two bank accounts, a checking account and a savings account, at Commercial State Bank in Wagner, South Dakota. The bank statements are delivered to Wipf & Cotton Law Office and the Registered Agent reviews the statements, compares the beginning balances with the prior months ending balances and verifies all deposits and checks. The individuals authorized to make deposits or transfers are Chairman Gerald Harrington and Secretary Treasurer Lyle Hoelsing.

There are no formal accounting records in place to monitor the cash assets of the Napa-Platte Authority. However, the amount of the activity at the Napa-Platte Authority is relatively small.

We recommend that the Napa-Platte Authority establish some basic accounting records such as a General Ledger, Cash Receipts Journal and Cash Disbursements Journal.

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

The Napa-Platte Authority is not exercising its power to levy and generate property tax revenues.

The Napa-Platte Authority does collect revenues for car storage, with the payments being made at the end of the lease year. The short line operator will bill third parties for

car storage and then make payments to the Department of Transportation and to the Napa-Platte Authority, with each of these parties receiving 32.5% of the revenue. The short line operator will keep 35% of these revenues. The Department of Transportation and the Napa-Platte Authority do receive documentation from the short line operator regarding the number of cars stored on the line. However, no verification is made in order to determine if the amount reported to the Napa-Platte Authority and the Department of Transportation by the short line operator is correct. All payments to the Napa-Platte Authority are sent to the Chairman of the Board or the Secretary/Treasurer and they make the deposits. No receipts are issued for monies taken in, nor are there any formal accounting records in place to monitor and track the revenues of the Napa-Platte Authority.

We recommend that a system of verification be implemented to ensure that the payment from the short line operator is correct.

We recommend that the Napa-Platte Authority issue receipts for all monies taken in.

We recommend that the Napa-Platte Authority establish some basic accounting records such as a General Ledger, Cash Receipts Journal and Cash Disbursements Journal.

5. We reviewed the Napa-Platte Authority's procedures related to the expenditure process.

Expenditures are paid on an as needed basis, and are approved by the Napa-Platte Authority's board and listed in the minutes of the board. Checks are signed by the Chairman of the board and the Secretary/Treasurer. Supporting documentation for the expenditures is retained at the Wipf & Cotton Law Office; however, we determined as part of our review that not all supporting documentation could be found.

Our review also revealed that on April 5, 2012 the board approved paying \$75.00 per meeting for the Chairman and \$50.00 per meeting for the board members. They also approved a special onetime payment of \$500.00 to each member for prior meetings for which no compensation had been paid. The board also approved a mileage rate of \$0.40/mile for mileage and meals and lodging to be reimbursed at the state rate. The payments for travel expenses would be appropriate, and it could be argued that the onetime payment of \$500.00 is for prior travel expenses that were not paid, but no support was included for the payment. 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."

Our review also revealed that the first payment to Wipf & Cotton for legal services was for the time period June 2001 through April 2011. We were informed by the Registered Agent that no payments were made throughout this ten year time period as the Napa-Platte Authority had no funds. The Registered Agent tracked his time, but was never paid until the Napa-Platte Authority had the funds. We also noted that there were no reimbursement payments for travel made to the board members during this time period. Our review also found that the payment for Consulting Services was for the time period March 2011 through October 2012. When we inquired about the contract between the Napa-Platte Authority and this consulting firm we were informed no contract existed.

There are no formal accounting records in place to monitor and track the expenditures of the Napa-Platte Authority.

We recommend that the Napa-Platte Authority maintain supporting documentation for all expenses made.

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

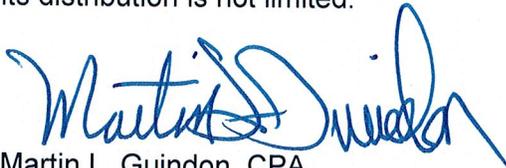
We recommend that the Napa-Platte Authority pay bills in a timely manner.

We recommend that the Napa-Platte Authority obtain signed contracts for any outside consulting services.

We recommend that the Napa-Platte Authority establish some basic accounting records such as a General Ledger, Cash Receipts Journal and Cash Disbursements Journal.

6. We reviewed Napa-Platte 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. Napa-Platte Authority currently does not have any long-term debt.

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

NAPA-PLATTE 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	\$ 7,179.92
Revenues:	
Lease Revenue	134,025.00
Interest Income	142.91
	<hr/>
Total Revenue	134,167.91
Expenditures:	
Other Payments to State	37,183.45
Legal Services	34,521.85
Consulting Services	20,285.24
Board Fees and Travel Expenses	12,014.36
Other Expenditures	51.00
	<hr/>
Total Expenditures	104,055.90
Excess Revenues Over (Under) Expenditures	<hr/> 30,112.01
Fund Cash Balance, December 31, 2014	<hr/> <u>\$ 37,291.93</u>

NAPA-PLATTE 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	\$ 52,792.11
Revenues:	
Lease Revenue	9,017.10
Interest Income	39.76
	<hr/>
Total Revenue	9,056.86
Expenditures:	
Other Payments to State	0.00
Legal Services	4,200.31
Consulting Services	17,085.74
Board Fees and Travel Expenses	3,228.99
Other Expenditures	42.00
	<hr/>
Total Expenditures	24,557.04
Excess Revenues Over (Under) Expenditures	<hr/> (15,500.18)
Fund Cash Balance, December 31, 2014	<hr/> <u>\$ 37,291.93</u>

NAPA-PLATTE 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	\$ 40,731.96
Revenues:	
Lease Revenue	19,886.21
Interest Income	33.55
	<hr/>
Total Revenue	19,919.76
Expenditures:	
Other Payments to State	0.00
Legal Services	6,544.61
Consulting Services	0.00
Board Fees and Travel Expenses	1,315.00
Other Expenditures	0.00
	<hr/>
Total Expenditures	7,859.61
Excess Revenues Over (Under) Expenditures	<hr/> 12,060.15
Fund Cash Balance, December 31, 2013	<hr/> <hr/> \$ 52,792.11

NAPA-PLATTE 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	\$ 65,427.95
Revenues:	
Lease Revenue	35,046.69
Interest Income	25.31
	<hr/>
Total Revenue	35,072.00
Expenditures:	
Other Payments to State	37,183.45
Legal Services	12,614.67
Consulting Services	3,199.50
Board Fees and Travel Expenses	6,770.37
Other Expenditures	0.00
	<hr/>
Total Expenditures	59,767.99
Excess Revenues Over (Under) Expenditures	<hr/> (24,695.99) <hr/>
Fund Cash Balance, December 31, 2012	<u><u>\$ 40,731.96</u></u>

NAPA-PLATTE 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	\$ 7,179.92
Revenues:	
Lease Revenue	70,075.00
Interest Income	44.29
	<hr/>
Total Revenue	70,119.29
Expenditures:	
Other Payments to State	0.00
Legal Services	11,162.26
Consulting Services	0.00
Board Fees and Travel Expenses	700.00
Other Expenditures	9.00
	<hr/>
Total Expenditures	11,871.26
	<hr/>
Excess Revenues Over (Under) Expenditures	58,248.03
	<hr/>
Fund Cash Balance, December 31, 2011	<u><u>\$ 65,427.95</u></u>

Dear Martin Guindon and Mr. Russ Olson:

The Napa to Platte Regional RR Authority has received the Draft "Limited Review of Procedures and Controls" report conducted by the South Dakota Department of Legislative Audit dated 6-30-15.

Please accept this correspondence as NPRRA's formal response to the report. NPRRA understands this response will be attached to the back of your report.

Section (4) - Procedures related to revenues received:

The report states, "The Department of Transportation and the Napa-Platte Authority do receive documentation from the short line operator regarding the number of cars stored on the line. However, no verification is made in order to determine if the amount reported to the Napa-Platte Authority and the Department of Transportation by the short line operator is correct".

The report continues with this recommendation, "**We recommend that a system of verification be implemented to ensure that the payment from the short line operator is correct.**"

Please be advised that NPRRA has repeatedly asked Dakota Southern Railway for verification documentation covering car storage to determine the revenues received were correct. Dakota Southern Railway has never provided this requested additional verification documentation. The following email thread at the end of this letter verifies NPRRA's numerous requests. Please note DSRC's reply when asked for additional information, "We may have originated the table-don't recall." Clearly, DOT is blindly accepting and signing off on insufficient data as provided by DSRC. This is not acceptable to NPRRA.

Additionally, NPRRA independently conducted weekly inspections and inventories of cars stored on the rail line by DSRC from 2010 to 2014. These inventories identified each individual car's number, date of car arriving and date of car departing the rail line. The inventories also estimated ASSUMED revenues based upon what DSRC had claimed was the dollar amount they received per car per day. As noted herein, NPRRA has never received verification documentation as requested of DSRC. Two examples of these inventories are attached. One inventory example was sent to DSRC, top SD DOT officials and members of the State Railroad Board on June 30, 2014 as evidenced in the email string below. Again, no documentation was provided by DSRC and no assistance was provided by SD DOT in obtaining the requested information.

Section (Last) - Report of Revenues, Expenditures and Changes in Fund Cash Balance:

Please note "Lease Revenues" for the calendar years 2011, 2012 and 2013 were \$70,075.00, \$35,046.69 and \$19,886.21 respectively. These "Lease Revenues" are generated from car storage receipts for all 3 years and a one-time share of the Federal 45-G Short Line Tax Credit revenues in 2011. In 2011 NPRRA received \$20,000 and the SD DOT received \$20,000 from the DSRC for the Federal 45-G Short Line Tax Credit. In 2012, 2013 and 2014 SD DOT exclusively bestowed the Federal 45-G Short Line Tax Credits to DSRC. In 2012, 2013 and 2014 NPRRA and SD DOT received no revenues from the Federal 45-G Short Line Tax Credits despite efforts by NPRRA to be the exclusive recipient of the Federal 45-G Short Line Tax Credits. In April of 2014 NPRRA received an offer of up to \$144,000 annually for the 45-G Federal Tax Credits. In June of 2014 NPRRA presented the \$144,000 offer for the Federal 45-G

Short Line Tax Credits to SD DOT and the SD State Railroad Board. NPRRA proposed the \$144,000 be split with SD DOT in some manner with NPRRA's share going into track improvements. SD DOT through the SD State RR Board declined the \$144,000 in favor of the current \$0.00 received by DSRC today.

Thank you for your review and input of these comments into the final "Limited Review of Procedures and Controls Report" covering NPRRA.

Sincerely,

Tub Harrington, Chairman
Napa to Platte Regional Railroad Authority

(see email threads below)

From: Avory Beggs of DSRC
Sent: Mon 7/28/14 4:15 PM
To: 'Gerald Harrington'; Mike Williams, Bruce Lindholm, Carl Anderson, Sheldon Cotton, Jerry Cope, Todd Yeaton, Gary Doering, Harlen Quenzer, Dan Baker

Gerald, to clarify, that table comes from Misty. We may have originated the table-don't recall, but ultimately she audits all the information we send upon her request and she signs off on the information we provide prior to payments being submitted to the State or Railroad Authority. Furthermore, we did send replies to the emails you note below, however I was not aware that was a request on an ongoing basis. Unfortunately, we have a confidentiality clauses in most customer agreement that prohibit us from distributing certain information. I am happy to request permission to release that information, however we would require a confidentiality and nondisclosure agreement prior to providing. Would Ken be willing to sign that on behalf of the authority since he understands the legal recourse of proprietary information being shared with individuals not listed on the agreement?

From: Gerald Harrington
Sent: Monday, June 30, 2014 4:04 PM
To: mw; avory; bruce.lindholm; kevin.tveidt; carlanderson; jerryc; toddyeaton; doering; hquenzer darin.bergquist; dwwray
Subject: Napa Car Storage-Period Ending Dec'13

Mike:

Thank you for your recent check in the amount of \$9,017.10 for car storage on the Napa to Tabor part of your sublease.

We received a table from Misty in Pierre that only shows car storage revenues on a monthly basis. This information is not sufficient for my board. We assume the table was produced by Dakota Southern.

As previously requested on 1-9-12 and again on 1-23-12 NPRRA requires an accounting covering the cars inbound and outbound dates. It is assumed the SD DOT also requires the same as to their standard due diligence needs. We recommend you provide something similar to the attached 2010 template. The template also shows the daily storage rates allowing the

calculation for revenues received. Dakota Southern must have used similar information to arrive at the monthly table summary provided by Misty.

Again NPRRA is requesting:

1. Copies of contracts covering Car Storage including storage rates and other terms. If written contracts are not in place, provide written documentation and contact information for the entities for which the car storage is being provided including storage rates and other terms.
2. Records of any Invoices from Dakota Southern Railway Company covering Car Storage.
3. Records of any payments received by Dakota Southern Railway Company covering Car Storage.

NPRRA has yet to receive this information and looks forward to its receipt.

Thanks for your attention.

Tub Harrington, Chairman
Napa to Platte Regional Railroad Authority

From: nprra
To: mw; avory; kencot
CC: bruce.lindholm; kevin.tveidt; ronm; jdparliament; todd.yeaton; carl@anderson; dway;
chetsxf; ksjuhnke; brad.carson; path
Subject: RE: Napa To Tabor Car Storage
Date: Mon, 23 Jan 2012 15:59:08 -0600
Mike:

Thanks for getting back to us.

We can understand your delay in receiving paper work from the Burlington Northern.

We do request your switch lists or Interchange Report(s) covering the cars west of Napa Junction. I have personally seen the cars. Some are just east of Tabor and some just west of Napa Junction.

Also as I asked before, please document to us the rates and terms you have agreed to for the storage. It would be unrealistic to believe you placed cars in storage without first establishing rates and terms for that storage.

We look forward to being copied as your monthly invoices are forwarded in addition to documentation of your payments received.

Thanks for your attention to this matter. Your email reply with with attachments is preferred.

Thanks again.

Tub Harrington, Chairman
Napa to Platte Regional Railroad Authority

From: mw
To: nprra; mw; avory
CC: bruce.lindholm; kevin.tveidt; ronm; jdparliament; todd.yeaton; carlanderson.; dwwray; chetsxf;
ksjuhnke; brad.carson; path
Date: Mon, 16 Jan 2012 22:13:36 +0000
Subject: Re: Napa To Ravinia Sublease Agreement
Mr. Harrington:

We have received your request for information and will forward proper documentation once we can. We are waiting for the contract from BNSF regarding these cars. We have communicated the urgency in completing the contract to them. Invoices will be generated monthly once we have the signed contracts, and payments will be collected per the terms. At this time we have neither invoiced, nor received payments for any storage pertaining to these cars.

Thanks,
Mike Williams
President

-----Original Message-----

From: Gerald Harrington
Sent: Tuesday, January 10, 2012 10:47 AM
To: mw, avory
Cc: bruce.lindholm, kevin.tveidt, ronm,
jdparliament, todd.yeaton, carlanderson.,
'Dan Baker, chetsxf, 'Kent Juhnke', brad.carson,
path
Subject: Napa To Ravinia Sublease Agreement
Dear Mike,

Attached please find NPRRA's correspondence relative to your new Sublease.

Thank you.

Tub Harrington
Chairman, Napa to Platte Regional Railroad Authority