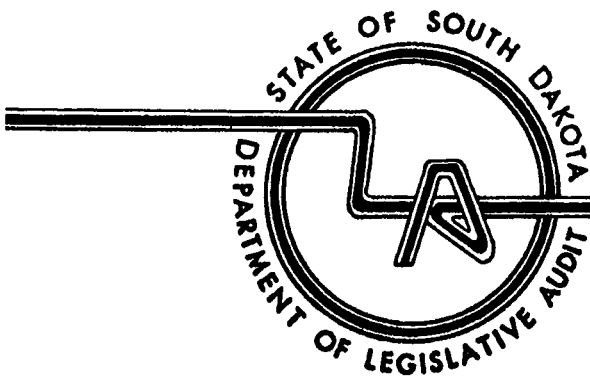


SIOUX VALLEY

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 SIOUX VALLEY 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 Sioux Valley Regional Railroad Authority's (Sioux Valley 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 determined that the Sioux Valley Authority board members were appointed by member subdivisions in accordance with SDCL 49-17A-6.

2. We reviewed the Sioux Valley 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 at the office of the Sioux Valley Authority Secretary/Treasurer Margaret Gillespie (Secretary/Treasurer) at least 24 hours in advance of the meeting. Meetings are held at least twice per year and the meeting location varies. Minutes of the Sioux Valley Authority board meetings are retained and are available from the Secretary/Treasurer.

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

The Sioux Valley Authority has one bank account at First Savings Bank in Sioux Falls. The account is an interest bearing checking account. The bank statements are delivered to the Secretary/Treasurer. All revenues are sent to the Secretary/Treasurer who makes the deposit, or are wire transferred into the bank account. The Secretary/Treasurer uses QuickBooks and other computer records to track the cash assets, revenues and expenditures of the Sioux Valley Authority.

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

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

During the period reviewed, the Sioux Valley Authority collected revenues from a number of different sources. Review of the leases and subleases revealed that the Sioux Valley Authority is to receive 1% of the gross revenues of D&I railroad. All of these revenues are then to be passed on to the State of South Dakota. However, we noted that D&I railroad was making these payments directly to the State of South Dakota and that the Sioux Valley Authority was not tracking these revenues and expenditures on their accounting records. Review of the loan documents revealed that the Sioux Valley Authority is receiving payments from L.G. Everist in order to pay back promissory note #712626 and promissory note #713390. These funds are directly deposited into the Sioux Valley Authority's checking account. Review of the loan agreements also revealed that the Sioux Valley Authority is receiving a \$20.00/car surcharge from D&I railroad in order to repay promissory note #713919. The Sioux Valley Authority is also receiving a \$58.00/car surcharge from D&I railroad pursuant to an agreement that has been in existence since the 1980's.

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

Receipts are entered into the QuickBooks accounting system and are also tracked on a receipt/disbursement ledger record; however, no entries are recorded in the accounting records for receipts sent directly to the State as a payment on the Sioux Valley Authority's behalf. The Secretary/Treasurer is responsible for depositing revenues that are sent directly to the Sioux Valley Authority.

We recommend that the Sioux Valley Authority record all revenues and expenses in the accounting system and other records maintained by the Sioux Valley Authority.

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

During each meeting the board passes a resolution authorizing the secretary to make all payments to the State of South Dakota in accordance with loan agreements. They also authorize that all actions, contracts, agreements and other undertakings on behalf of the Sioux Valley Authority are hereby ratified, confirmed and approved, and that the officers of the Sioux Valley Authority are authorized and directed to continue to manage the day to day business of the Sioux Valley Authority pursuant to previous directives and practices of the Sioux Valley Authority's Board of Commissioners.

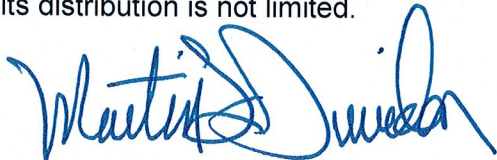
Expenditures are paid on an as needed basis. Checks are written pursuant to the above directive by the Secretary/Treasurer. The bills paid since the last meeting and the upcoming bills are presented to the Board for review at each meeting. Checks require only one signature, that of the Secretary/Treasurer.

Review of the leases and subleases revealed that the Sioux Valley Authority is to receive 1% of the gross revenues of D&I railroad. All of these revenues are then to be passed on to the State of South Dakota. However, we noted that D&I railroad was making these payments directly to the State of South Dakota and that the Sioux Valley Authority was not tracking these revenues and expenditures on their accounting records.

We recommend that the Sioux Valley Authority record all revenues and expenses in the accounting system and other records maintained by the Sioux Valley Authority.

6. We reviewed Sioux Valley 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

SIOUX VALLEY 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	\$ 857,491.55
Revenues:	
Lease Revenue Paid Directly to State	127,923.85
Surcharge Revenue (\$20 per car to State)	440,560.00
Surcharge Revenue (\$58 per car to SVRRA)	1,277,624.00
Payment from Industry (Loan Related)	3,512,701.43
Interest Income	<u>1,037.45</u>
Total Revenue	5,359,846.73
Expenditures:	
Debt Service Payment to State - Principal	3,950,920.27
Debt Service Payment to State - Interest	1,656,658.10
Other Payments to State	127,923.85
Legal Services	13,550.93
Accounting Services	2,994.50
Other Expenditures	<u>2,677.79</u>
Total Expenditures	<u>5,754,725.44</u>
Excess Revenues Over (Under) Expenditures	<u>(394,878.71)</u>
Fund Cash Balance, December 31, 2014	<u><u>\$ 462,612.84</u></u>

SIOUX VALLEY 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	\$ 395,005.43
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Revenues:

Lease Revenue Paid Directly to State	32,895.73
Surcharge Revenue (\$20 per car to State)	122,340.00
Surcharge Revenue (\$58 per car to SVRRA)	354,786.00
Payment from Industry (Loan Related)	697,771.46
Interest Income	165.30
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Total Revenue	1,207,958.49
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Expenditures:

Debt Service Payment to State - Principal	810,181.90
Debt Service Payment to State - Interest	291,148.43
Other Payments to State	32,895.73
Legal Services	3,971.80
Accounting Services	1,643.00
Other Expenditures	510.22
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Total Expenditures	1,140,351.08
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Excess Revenues Over (Under) Expenditures	67,607.41
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Fund Cash Balance, December 31, 2014	<u><u>\$ 462,612.84</u></u>
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SIOUX VALLEY 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	\$ 321,419.13
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Revenues:

Lease Revenue Paid Directly to State	32,584.35
Surcharge Revenue (\$20 per car to State)	100,100.00
Surcharge Revenue (\$58 per car to SVRRA)	290,290.00
Payment from Industry (Loan Related)	598,429.18
Interest Income	142.71
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Total Revenue	1,021,546.24
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Expenditures:

Debt Service Payment to State - Principal	606,379.82
Debt Service Payment to State - Interest	307,004.55
Other Payments to State	32,584.35
Legal Services	1,399.56
Accounting Services	0.00
Other Expenditures	591.66
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Total Expenditures	947,959.94
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Excess Revenues Over (Under) Expenditures	73,586.30
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Fund Cash Balance, December 31, 2013	<u><u>\$ 395,005.43</u></u>
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SIOUX VALLEY 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	\$ 223,946.39
Revenues:	
Lease Revenue Paid Directly to State	32,585.25
Surcharge Revenue (\$20 per car to State)	110,458.00
Surcharge Revenue (\$58 per car to SVRRRA)	320,102.00
Payment from Industry (Loan Related)	683,389.63
Interest Income	294.66
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Total Revenue	1,146,829.54
Expenditures:	
Debt Service Payment to State - Principal	689,633.85
Debt Service Payment to State - Interest	320,870.52
Other Payments to State	32,585.25
Legal Services	5,194.28
Accounting Services	715.50
Other Expenditures	357.40
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Total Expenditures	1,049,356.80
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Excess Revenues Over (Under) Expenditures	97,472.74
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Fund Cash Balance, December 31, 2012	<u><u>\$ 321,419.13</u></u>

SIOUX VALLEY 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	\$ 857,491.55
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Revenues:

Lease Revenue Paid Directly to State	29,858.52
Surcharge Revenue (\$20 per car to State)	107,662.00
Surcharge Revenue (\$58 per car to SVRRA)	312,446.00
Payment from Industry (Loan Related)	1,533,111.16
Interest Income	<u>434.78</u>

Total Revenue	1,983,512.46
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Expenditures:

Debt Service Payment to State - Principal	1,844,724.70
Debt Service Payment to State - Interest	737,634.60
Other Payments to State	29,858.52
Legal Services	2,985.29
Accounting Services	636.00
Other Expenditures	<u>1,218.51</u>

Total Expenditures	<u>2,617,057.62</u>
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Excess Revenues Over (Under) Expenditures	<u>(633,545.16)</u>
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Fund Cash Balance, December 31, 2011	<u><u>\$ 223,946.39</u></u>
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SIOUX VALLEY 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 #712626 (See Note 1)	\$ 1,062,054.01	\$ 0.00	\$ 1,062,054.01	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Promissory Note Payable #713390 (See Note 2)	6,782,188.36	0.00	471,870.69	254,939.12	267,686.07	281,070.38	5,506,622.10
Promissory Note Payable #713919 (See Note 3)	5,215,415.20	0.00	310,800.00	397,000.00	299,880.00	405,620.00	3,802,115.20
Promissory Note Payable - L.G. Everist (See Note 4)	0.00	200,000.00	0.00	37,694.73	38,813.75	123,491.52	0.00
Total Long-Term Debt	\$ 13,059,657.57	\$ 200,000.00	\$ 1,844,724.70	\$ 689,633.85	\$ 606,379.82	\$ 810,181.90	\$ 9,308,737.30

Note 1:

This promissory note was entered into on September 8, 2004 between the State of South Dakota through the State Railroad Board, Sioux Valley Regional Railroad Authority and L.G. Everist, Inc. The total amount loaned was \$1,500,000 at an interest rate of 4% to be paid back over a 15 year period. The purpose of the loan was for a bridge rehabilitation project.

Note 2:

This promissory note was entered into on April 5, 2007 between the State of South Dakota through the State Railroad Board, Sioux Valley Regional Railroad Authority and L.G. Everist Inc. The total amount loaned was \$7,073,100.08 at an interest rate of 5.06% to be paid back over a 20 year period. The purpose of the loan was for a rail relay project.

Note 3:

This promissory note was entered into on July 1, 2009 between the State of South Dakota through the State Railroad Board and the Sioux Valley Regional Railroad Authority (Loanee). The total amount loaned was \$5,396,622.42. There is no interest being charged on this loan. The loan is to be repaid with a \$20/car surcharge on each railcar shipped on the line. Payments of varying amounts will be made until the loan is paid off. The purpose of the loan was for a rail siding and relay project.

Note 4:

This promissory note was entered into on between the L.G. Everist, Inc. and the Sioux Valley Regional Railroad Authority (Loanee). The total amount loaned was \$200,000.00 at an interest rate of 2.5% to be paid back over a 5 year period. The purpose of the loan was to assist in refinancing Promissory Note #712626 for costs related to the project mentioned in Note 1 above.

Note 5:

Promissory Note #715458 was authorized and signed on June 15, 2014 between the State of South Dakota through the State Railroad Board and the Sioux Valley Regional Railroad Authority (Loanee). The total amount loaned approved was \$1,950,888.50 at an interest rate of 2% to be paid back over a 15 year period. The purpose of the loan was for a bridge rehabilitation project. As of December 31, 2014, Sioux Valley Regional Railroad Authority has not requested any drawdown on this note.

S ioux V alley R egional R ailroad A uthority

**P. O. BOX 97
ALCESTER, SOUTH DAKOTA 57001-0097**

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EMAIL ADDRESS: ghglaw@iw.net**

July 14, 2015

Martin L. Guindon
Auditor General
427 South Chapelle
Pierre, SD 57501

EMAILED ONLY TO TOBY QUALM

Re: Acknowledgment and temporary response to Report on Limited Review of
SVRRA

Dear Mr. Guindon:

Thank you for sending the Report on the Limited Review of the SVRRA. This letter constitutes receipt of the document. I have provided a copy to the Chairman of the Authority, Russell Hazel.

We will be discussing the findings and recommendations at our fall meeting coming up in September. At that time, if an additional response is warranted, either myself or Russ Hazel will follow up with your office.

If you have any questions or concerns in the meantime, please let me know.

Very truly yours,

SIoux VALLEY REGIONAL RAILROAD AUTHORITY

Margaret V. Gillespie
Secretary-Treasurer

cc: Toby Qualm
Russell Hazel, Chairman