

EAST CENTRAL

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 EAST CENTRAL 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 East Central Regional Railroad Authority's (East Central 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 Cavour Township that the township board had not (re)appointed authority board members once the member's initial term had expired at the end of three years. We determined that Beadle County had appointed its representatives in accordance with SDCL 49-17A-6.

We recommend that the East Central Authority communicate with the member township about the election/appointment of board members to ensure compliance with SDCL 49-17A-6.

2. We reviewed the East Central 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 county courthouse and township hall. Meetings are held on an as needed basis and the meeting location is at the fire hall in Cavour. When we inquired of the County Auditor and the registered agent they stated that notices had only been posted at the Cavour fire hall. Minutes of the East Central Authority board meetings are retained and are available from Gary Doering, registered agent. We also determined that all necessary documentation had been filed with the Secretary of State's office.

We recommend that the East Central 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 East Central Authority's procedures related to the monitoring of cash assets.

The East Central Authority has one checking account. The bank statements are delivered to Gary Doering, East Central Authority's Registered Agent who also reconciled the bank account. All revenues are received by the Registered Agent who makes the deposit. The East Central Authority does not maintain formal accounting records; all activity is tracked in the check register.

We recommend that the East Central 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 when financial activity warrants it.

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

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

During the period reviewed, the East Central Authority collected lease and surcharge payments from the short line operator. The lease agreement requires the short line operator to pay \$1 per car stored or shipped on the line, up to 750 cars per year with graduated payments on cars above 750. These collections are remitted to the Department of Transportation. The East Central Authority received a loan from the Department of Transportation to rehabilitate the track; under this agreement the short line operator must now pay a \$20.00/car surcharge to the East Central Authority. These funds are to be used to repay the loan. In a separate agreement, the short line operator

had agreed to pay an additional \$5 to the East Central Authority for use in maintaining the line.

Receipts are not issued when funds come in to the East Central Authority's Registered Agent. The Registered Agent is responsible for depositing revenues that are sent directly to him. The East Central Authority does not maintain formal accounting records, all activity tracked in the check register.

We recommend that the East Central 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.

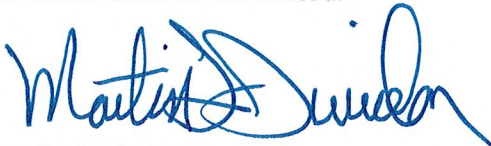
5. We reviewed the East Central Authority's procedures related to the expenditure process.

Expenses are paid on an as needed basis. Expenditures are not approved by the East Central Authority's board, either prior or subsequent to payment, and are not listed in the minutes of the board. Checks are required to be signed by two board members (registered agent and board president). The dual signature requirement could not be verified since checks are not returned nor are facsimiles included with the bank statements. The East Central Authority does not maintain formal accounting records, all activity tracked in the check register.

We recommend that the East Central 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 East Central 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

EAST CENTRAL 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	\$ 12,665.92
Revenues:	
Lease Revenue	879.00
Surcharge Revenue	19,550.00
Other Revenues-Track Damage Settlement	<u>42,807.60</u>
Total Revenue	63,236.60
Expenditures:	
Debt Service Payment to State - Principal	15,640.00
Other Payments to State	<u>879.00</u>
Total Expenditures	16,519.00
Excess Revenues Over (Under) Expenditures	<u>46,717.60</u>
Fund Cash Balance, December 31, 2014	<u><u>\$ 59,383.52</u></u>

EAST CENTRAL 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	\$ 15,515.92
Revenues:	
Lease Revenue	310.00
Surcharge Revenue	5,300.00
Other Revenues-Track Damage Settlement	<u>42,807.60</u>
Total Revenue	48,417.60
Expenditures:	
Debt Service Payment to State - Principal	4,240.00
Other Payments to State	<u>310.00</u>
Total Expenditures	4,550.00
Excess Revenues Over (Under) Expenditures	<u>43,867.60</u>
Fund Cash Balance, December 31, 2014	<u><u>\$ 59,383.52</u></u>

EAST CENTRAL 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	\$ 14,370.92
Revenues:	
Lease Revenue	116.00
Surcharge Revenue	5,725.00
Other Revenues	<u>0.00</u>
Total Revenue	5,841.00
Expenditures:	
Debt Service Payment to State - Principal	4,580.00
Other Payments to State	<u>116.00</u>
Total Expenditures	4,696.00
Excess Revenues Over (Under) Expenditures	<u>1,145.00</u>
Fund Cash Balance, December 31, 2013	<u><u>\$ 15,515.92</u></u>

EAST CENTRAL 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	\$ 14,100.92
Revenues:	
Lease Revenue	166.00
Surcharge Revenue	1,350.00
Other Revenues	0.00
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Total Revenue	1,516.00
Expenditures:	
Debt Service Payment to State - Principal	1,080.00
Other Payments to State	166.00
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Total Expenditures	1,246.00
Excess Revenues Over (Under) Expenditures	<hr/> 270.00
Fund Cash Balance, December 31, 2012	<hr/> <u>\$ 14,370.92</u>

EAST CENTRAL 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	\$ 12,665.92
Revenues:	
Lease Revenue	287.00
Surcharge Revenue	7,175.00
Other Revenues	0.00
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Total Revenue	7,462.00
Expenditures:	
Debt Service Payment to State - Principal	5,740.00
Other Payments to State	287.00
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Total Expenditures	6,027.00
Excess Revenues Over (Under) Expenditures	<hr/> 1,435.00
Fund Cash Balance, December 31, 2011	<hr/> <u>\$ 14,100.92</u>

EAST CENTRAL 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 #713845 (See Note 1)	\$ 953,142.02	\$ 0.00	\$ 5,740.00	\$ 1,080.00	\$ 4,580.00	\$ 4,240.00	\$ 937,502.02

Note 1:

This promissory note was entered into on June 9, 2009 between the State of South Dakota through the State Railroad Board and the East Central Regional Railroad Authority (Borrower). The total amount borrowed was \$956,582.02 at an interest rate of 0% until paid in full. The purpose of the loan was to rehabilitate track between Huron and Yale, South Dakota.