

**MARSHALL**

**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 MARSHALL 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 Marshall Regional Railroad Authority's (Marshall 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 Marshall Authority board members were appointed by member governments in accordance with SDCL 49-17A-6.

2. We reviewed the Marshall 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 Marshall Authority Board are held, notice of the meeting is to be posted in Marshall County Courthouse and the Municipality of Britton Finance Office. Meetings are held at least annually and on an as needed basis and the meeting location is usually the Norstar Federal Credit Union in Britton, SD. However, when we inquired of the Marshall County Auditor and the Municipality of Britton Finance Officer about the notices, neither of them ever recalled receiving any agenda or meeting notice to post. Minutes of the Marshall Authority board meetings are retained and are available from Kirk Jones, Marshall Authority Secretary/Treasurer. We also determined that all necessary documentation had been filed with the Secretary of State's office.

**We recommend that the Marshall 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 Marshall Authority's procedures related to the monitoring of cash assets.

The Authority has three bank accounts and nine certificates of deposit at two different financial institutions. These accounts include a checking account, a primary share account, a money market account and nine certificates of deposit. The bank statements are delivered to Kirk Jones, Secretary/Treasurer of Marshall Authority. All revenues are sent to Kirk Jones who makes the deposit. Transfers between banks are made by making withdrawals and deposits between financial institutions. The Marshall Authority's Secretary/Treasurer uses the bank statements to track the cash assets, revenues and expenditures of the Marshall Authority. The Marshall Authority does not maintain any basic accounting records.

**We recommend that the Marshall 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 Marshall Authority's procedures related to the receipting and depositing of revenues.

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

During the period reviewed the Marshall Authority received revenues from the short line operator, Dakota Missouri Valley and Western Railroad relating to the \$20 per car surcharge for a car count for a fiscal year period from July 1<sup>st</sup> through June 30<sup>th</sup> per loan agreements. These receipts were deposited into the Marshall Authority's bank accounts with the deposit slip serving as the receipt. These receipts are further supported by records being maintained at the Department of Transportation. At the end of July of any year the Department of Transportation sends out an invoice to both the short line operator and Marshall Authority informing them it is time for this revenue to be

calculated. It is up to the short line operator to enter the car count on the invoices, take the car count times the \$20, and then submit their payment to the Marshall Authority.

During the period reviewed the lease-sublease revenue basis was:

|                     |   |
|---------------------|---|
| 750 cars or less    | \$1.00 per car                              |
| 751 to 1,500 cars   | plus \$2.50 per car for all cars over 750   |
| 1,501 to 3,000 cars | plus \$5.00 per car for all cars over 1,500 |
| 3,001 or above      | plus \$7.50 per car for all cars over 3,000 |

The lease-sublease revenue is invoiced from the Department of Transportation to the short line operator with payment from the short line operator being paid directly to the Department of Transportation.

The Marshall Authority also collects interest/dividend earnings on the various bank accounts and certificates of deposit held.

Receipts are not issued for any of the receipts of the Marshall Authority whether related to the \$20 per car surcharge for debt repayment, the lease-sublease revenue paid directly to the State from the short line operator, or interest/dividend income earned on Marshall Authority monies on deposit. Deposits slips serve as the receipt for the revenue received from the short line operator related to the \$20 per car surcharge revenue. There is no support for the lease-sublease revenue being paid directly to the Department of Transportation other than what can be provided by the Department of Transportation.

The Marshall Authority's Secretary/Treasurer uses the bank statements to monitor the revenues of the Marshall Authority. The Marshall Authority does not maintain any basic accounting records.

**We recommend that the Marshall 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.**

**We recommend that the Marshall Authority attach the invoices relating to the \$20 per car surcharge revenue received from the short line operator to their deposit slip received from the bank and retain with the bank statements to serve as receipt of this revenue. We further recommend that the Marshall Authority obtain a copy of the lease-sublease revenue from the Department of Transportation and file this with the related bank statements to support this revenue.**

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

Expenditures are paid on an as needed basis. Kirk Jones presents the bills at the meetings and they are then approved by the Marshall Authority's board; however, based on review of the Marshall Authority board minutes the expenditures are not listed in the minutes of the board. Checks are required to be signed by the Chairman and Secretary/Treasurer of the Board. If a bill needs to be paid before a meeting can be

held, Kirk Jones will pay the bill and approval will be granted at the next possible meeting.

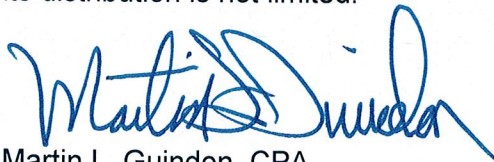
A review of the bank statements determined the Marshall Authority's checks were not pre-numbered—they appeared to just be a "counter check." We discussed this with the Marshall Authority Secretary/Treasurer and he indicated that the bank just makes the checks for the Marshall Authority on an as needed basis. The Marshall Authority does not maintain any basic accounting records.

**We recommend that the Marshall Authority consider establishing some basic accounting records and record any expenditures in the accounting records and record appropriate accounting entries for non-cash transactions.**

**We recommend that the Marshall Authority list expenditures in the minute notes indicating to whom it was paid, the purpose (i.e. utilities), and the amount.**

6. We reviewed Marshall 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

**MARSHALL 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        | \$ 159,911.40               |
| Revenues:                                 |                             |
| Lease Revenue (Paid Direct to State)      | 1,704.50                    |
| Surcharge Revenue                         | 38,300.00                   |
| Interest/Dividend Income                  | 10,904.66                   |
| Other Revenues (Sale of Land)             | <u>40,000.00</u>            |
| Total Revenue                             | 90,909.16                   |
| Expenditures:                             |                             |
| Debt Service Payment to State - Principal | 37,180.00                   |
| Other Payments to State                   | 1,704.50                    |
| Legal Services                            | 245.00                      |
| Utility Expense                           | 1,600.00                    |
| Equipment and Maintenance Expense         | 16,912.00                   |
| Other Expenditures                        | <u>19.59</u>                |
| Total Expenditures                        | <u>57,661.09</u>            |
| Excess Revenues Over (Under) Expenditures | <u>33,248.07</u>            |
| Fund Cash Balance, December 31, 2014      | <u><u>\$ 193,159.47</u></u> |

**MARSHALL 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        | \$ 203,961.02                    |
| Revenues:                                 |                                  |
| Lease Revenue (Paid Direct to State)      | 772.50                           |
| Surcharge Revenue                         | 2,740.00                         |
| Interest/Dividend Income                  | 1,770.45                         |
| Other Revenues                            | 0.00                             |
|   | <hr/>                            |
| Total Revenue                             | 5,282.95                         |
| Expenditures:                             |                                  |
| Debt Service Payment to State - Principal | 9,400.00                         |
| Other Payments to State                   | 772.50                           |
| Legal Services                            | 0.00                             |
| Utility Expense                           | 500.00                           |
| Equipment and Maintenance Expense         | 5,412.00                         |
| Other Expenditures                        | 0.00                             |
|   | <hr/>                            |
| Total Expenditures                        | 16,084.50                        |
| Excess Revenues Over (Under) Expenditures | <hr/> (10,801.55) <hr/>          |
| Fund Cash Balance, December 31, 2014      | <hr/> <u>\$ 193,159.47</u> <hr/> |

**MARSHALL 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        | \$ 173,710.82               |
| Revenues:                                 |                             |
| Lease Revenue (Paid Direct to State)      | 340.00                      |
| Surcharge Revenue                         | 17,900.00                   |
| Interest/Dividend Income                  | 2,304.40                    |
| Other Revenues (Sale of Land)             | 40,000.00                   |
|   | <hr/>                       |
| Total Revenue                             | 60,544.40                   |
| Expenditures:                             |                             |
| Debt Service Payment to State - Principal | 17,900.00                   |
| Other Payments to State                   | 340.00                      |
| Legal Services                            | 245.00                      |
| Utility Expense                           | 300.00                      |
| Equipment and Maintenance Expense         | 11,500.00                   |
| Other Expenditures                        | 9.20                        |
|   | <hr/>                       |
| Total Expenditures                        | 30,294.20                   |
|   | <hr/>                       |
| Excess Revenues Over (Under) Expenditures | 30,250.20                   |
|   | <hr/>                       |
| Fund Cash Balance, December 31, 2013      | <u><u>\$ 203,961.02</u></u> |



**MARSHALL 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        | \$ 163,693.32              |
| Revenues:                                 |                            |
| Lease Revenue (Paid Direct to State)      | 174.00                     |
| Surcharge Revenue                         | 9,880.00                   |
| Interest/Dividend Income                  | 3,077.50                   |
| Other Revenues                            | 0.00                       |
|   | <hr/>                      |
| Total Revenue                             | 13,131.50                  |
| Expenditures:                             |                            |
| Debt Service Payment to State - Principal | 2,440.00                   |
| Other Payments to State                   | 174.00                     |
| Legal Services                            | 0.00                       |
| Utility Expense                           | 500.00                     |
| Equipment and Maintenance Expense         | 0.00                       |
| Other Expenditures                        | 0.00                       |
|   | <hr/>                      |
| Total Expenditures                        | 3,114.00                   |
| Excess Revenues Over (Under) Expenditures | <hr/> 10,017.50            |
| Fund Cash Balance, December 31, 2012      | <hr/> <u>\$ 173,710.82</u> |

**MARSHALL 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        | \$ 159,911.40              |
| Revenues:                                 |                            |
| Lease Revenue (Paid Direct to State)      | 418.00                     |
| Surcharge Revenue                         | 7,780.00                   |
| Interest/Dividend Income                  | 3,752.31                   |
| Other Revenues                            | 0.00                       |
|   | <hr/>                      |
| Total Revenue                             | 11,950.31                  |
| Expenditures:                             |                            |
| Debt Service Payment to State - Principal | 7,440.00                   |
| Other Payments to State                   | 418.00                     |
| Legal Services                            | 0.00                       |
| Utility Expense                           | 300.00                     |
| Equipment and Maintenance Expense         | 0.00                       |
| Other Expenditures                        | 10.39                      |
|   | <hr/>                      |
| Total Expenditures                        | 8,168.39                   |
| Excess Revenues Over (Under) Expenditures | <hr/> 3,781.92             |
| Fund Cash Balance, December 31, 2011      | <hr/> <u>\$ 163,693.32</u> |

**MARSHALL REGIONAL RAILROAD AUTHORITY**  
**Schedule of Changes in Long-Term Debt**  
**December 31, 2014**

|   | Beginning<br>Balance<br>January 1, 2011 | Debt<br>Issued | Debt Payments |             |              |             | Ending<br>Balance<br>December 31, 2014 |
|---|---|----------------|---------------|-------------|--------------|-------------|--|
|   |   |                | 2011          | 2012        | 2013         | 2014        |  |
| Promissory Note Payable #713852<br>(See Note 1) | \$ 1,918,681.94                         | \$ 0.00        | \$ 7,440.00   | \$ 2,440.00 | \$ 17,900.00 | \$ 9,400.00 | \$ 1,881,501.94                        |

Note 1:

This promissory note was entered into on June 11, 2009 between the State of South Dakota through the State Railroad Board and the Marshall Regional Railroad Authority (Loanee). The total amount loaned was \$2,000,000 at an interest rate of 0.00%. The Loanee shall repay the loan with a \$20 per railcar surcharge for each railcar shipped to or from any industry located on the line or over the line, and each railcar stored on the line for revenue. This promissory note was amended on July 9, 2010--reducing the principal balance from \$2,000,000 down to \$1,926,461.94--with the term of the loan extending until such time as the \$1,926,461.94 is repaid through the \$20 per railcar surcharge. The purpose of the loan was to upgrade the State owned Britton line track leased to the Marshall Regional Railroad Authority by the State of South Dakota.

There was an amendment #2 to promissory note #713852 authorized on June 12, 2014 between the State of South Dakota through the State Railroad Board and the Marshall Regional Railroad Authority (Loanee) in the amount of \$5,250,000.00 that was unissued as of December 31, 2014.