

**Gibson County Railroad Authority  
Financial Statements  
June 30, 2013**

**Gregory N. Lee, CPA**  
1310 E Main Street  
Humboldt, TN 38343  
Tel. 731-784-9452  
Fax. 731-784-7751

**Gibson County Railroad Authority**  
**June 30, 2013**

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# Gibson County Railroad Authority Management

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## Management Officials

<u>Name</u>	<u>Position</u>
Will Wade	Chairman
Eric Partee	Vice-Chairman

## Those Charged with Governance

Will Wade  
Eric Partee  
Keith Cardwell  
Tom Witherspoon  
Allen Barker  
Virginia Davidson  
Gil Fletcher  
Johnny Martin  
Tony Burriss  
Jimmy Harris  
Tim Griggs  
Chris Ervin

## **Independent Auditor's Report**

To the Board of Directors  
Gibson County Railroad Authority

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the major fund of Gibson County Railroad Authority as of and for the year ended June 30, 2013, which collectively comprise the Railroad's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Gibson County Railroad Authority, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2013, on our consideration of Gibson County Railroad Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and

the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Gibson County Railroad Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Gregory N. Lee".

Gregory N. Lee, CPA  
Humboldt, Tennessee  
December 17, 2013

**Gibson County Railroad Authority**  
**Statement of Net Position**  
**June 30, 2013**

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	<u>Primary Government Governmental Activities</u>
<b><u>Assets</u></b>	
Current Assets:	
Cash and Cash Equivalents	\$ 609,042
Non-Current Assets:	
Notes Receivable	<u>114,621</u>
<b>Total Assets</b>	<b><u>723,663</u></b>
<b><u>Liabilities</u></b>	
None	<u>-</u>
<b>Total Liabilities</b>	<b><u>-</u></b>
<b><u>Net Position</u></b>	
Unrestricted (deficit)	<u>723,663</u>
<b>Total Net Position</b>	<b><u>\$ 723,663</u></b>

*The notes to the financial statements are an integral part of this statement.*

**Gibson County Railroad Authority**  
**Statements of Activities**  
**For the Year Ended June 30, 2013**

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
					Primary Government
					Total Governmental Activities
<b>Primary Government</b>					
Governmental Activities					
General Government	\$ 1,373,489		\$ 1,309,409		\$ (64,080)
Public Safety					-
Public Services					-
Culture & Recreation					-
Interest and Other Charges					-
Total Governmental Activities	<u>1,373,489</u>	-	<u>1,309,409</u>	-	<u>(64,080)</u>
General Revenues					
Interest					7,354
Total General Revenues					<u>7,354</u>
<b>Change in Net Position</b>					<b>\$ (56,726)</b>
<b>Net Position, July 1</b>					<u>780,389</u>
<b>Net Position, June 30</b>					<u><u>\$ 723,663</u></u>

*The notes to the financial statements are an integral part of this statement.*

**Gibson County Railroad Authority**  
**Fund Balance Sheets**  
**Governmental Funds**  
**June 30, 2013**

	<u>Primary Government</u>	
	<u>General Fund</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>		
Cash and Cash Equivalents	\$ 609,042	\$ 609,042
Notes Receivable	114,621	114,621
<b>Total Assets</b>	<b><u>\$ 723,663</u></b>	<b><u>\$ 723,663</u></b>
<b><u>Liabilities</u></b>		
None	-	-
<b>Total Liabilities</b>	-	-
<b><u>Fund Balances</u></b>		
Unassigned	723,663	723,663
<b>Total Fund Balances</b>	<u>723,663</u>	<u>723,663</u>
<b>Total Liabilities &amp; Fund Balances</b>	<b><u>\$ 723,663</u></b>	<b><u>\$ 723,663</u></b>

*The notes to the financial statements are an integral part of this statement.*

**Gibson County Railroad Authority**  
**Reconciliation of the Balance Sheet to the Statement of Net Position**  
**Governmental Funds**  
**June 30, 2013**

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Fund Balances - Total Governmental Funds	\$ 723,663
Net Position of Governmental Activities	<u>\$ 723,663</u>

*The notes to the financial statements are an integral part of this statement.*

**Gibson County Railroad Authority**  
**Statements of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2013**

	<u>Primary Government</u>	
	<u>General Fund</u>	<u>Total Governmental Funds</u>
<b><u>Revenues</u></b>		
Department of Transportation	\$ 1,309,409	\$ 1,309,409
Interest	7,354	7,354
Total Revenues	<u>1,316,763</u>	<u>1,316,763</u>
<b><u>Expenditures</u></b>		
Current Operating:		
General Government:		
Advertising	1,030	1,030
Dues & Subscriptions	6,500	6,500
Engineering	1,354,961	1,354,961
Free Trade Zone Expense	1,349	1,349
Insurance	975	975
Legal & Professional	8,674	8,674
Total Expenditures	<u>1,373,489</u>	<u>1,373,489</u>
<b>Excess (Deficiency) of Revenues</b>		
<b>Over Expenditures</b>	<u>\$ (56,726)</u>	<u>\$ (56,726)</u>
<b>Net Change in Fund Balances</b>	<u>\$ (56,726)</u>	<u>\$ (56,726)</u>
<b>Fund Balances, July 1</b>	<u>780,389</u>	<u>780,389</u>
<b>Fund Balances, June 30</b>	<u><u>\$ 723,663</u></u>	<u><u>\$ 723,663</u></u>

*The notes to the financial statements are an integral part of this statement.*

**Gibson County Railroad Authority**  
**Reconciliation of the Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances to the Statement of Activities**  
**Governmental Funds**  
**June 30, 2013**

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Net Change in Fund Balances - Total Governmental Funds	\$ (56,726)
Change in Net Position of Governmental Funds	<u>\$ (56,726)</u>

*The notes to the financial statements are an integral part of this statement.*

**Gibson County Railroad Authority**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 1 - Summary of Significant Accounting Policies**

The Gibson County Railroad Authority (the Railroad) was established in 1984, pursuant to TCA 7-56-201. The Railroad is a pass-through entity for state funds. Those funds are used for repairs, maintenance, construction, and rehabilitation of the rail line.

Reporting Entity

The Railroad was created by Gibson County, Tennessee, in conjunction with Madison County and the cities of Trenton, Humboldt, Dyer, Rutherford, and Kenton. The Board is composed of the County Executive of Gibson and Madison counties, the mayors of Trenton, Humboldt, Dyer, Rutherford, and Kenton, and one at-large member from each of the above areas; however, the counties and cities do not have any ongoing financial interest or responsibility for the entity. The Railroad has no associated component units.

Government-Wide and Fund Financial Statements

*Government-Wide Financial Statements*

The Government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Railroad as a whole. Individual funds are not displayed.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges to users of the Railroad's services, (2) operating grants and contributions which finance annual operating activities, and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

*Fund Financial Statements*

Fund financial statements are provided for governmental funds. Major individual governmental funds are reported in separate columns. The Railroad has no non-major funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the Railroad are prepared in accordance with Generally Accepted Accounting Principals (GAAP). The *Governmental Accounting Standards*

**Gibson County Railroad Authority**  
**Notes to the Financial Statements**  
**June 30, 2013**

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*Board* (GASB) is the accepted standard setting body for establishing governmental accounting and reporting principles.

Government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Railroad considers revenues to be available if they are collected within 30 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred except for general obligation principal and interest which are reported as expenditures in the year due.

Major revenue services susceptible to accrual include: Department of Revenue funds and Interest. In general, other revenues are recorded when cash is received.

Fund Types and Major Funds

*Governmental Funds*

The Railroad reports the following major governmental funds:

**General Fund** – reports as the primary fund of the Railroad. This fund is used to account for all financial resources.

*Other Fund Types*

The Railroad has no other fund types.

Cash and Cash Equivalents

The Railroad considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Capital Assets, Depreciation, and Amortization

The Railroad has no capital assets.

**Gibson County Railroad Authority**  
**Notes to the Financial Statements**  
**June 30, 2013**

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Long-term Debt

The Railroad has no long-term debt.

Compensated Absences

The Railroad has no employees.

Budgets

The Railroad has not adopted a formal budget and is not legally required to do so.

Use of Restricted Resources

The Railroad has no restricted resources.

Fund Balance Classification Policies

**Committed Funds** - approval by the Board, which is the Railroad's highest level of decision-making authority, is required to establish, modify, or rescind a fund balance commitment.

**Assigned Funds** – authorization to assign amounts to a specific purpose is given to the Board.

Use of Committed Resources

The Railroad has no committed resources.

**Note 2 – Cash and Investments**

The Railroad is authorized to invest in interest-bearing checking accounts, savings accounts, certificates of deposits, Tennessee Local Government Investment Pool, and Government Securities. As of the financial statement date, the reported amount and fair amount of the Railroad's interest-bearing deposits was \$667,462. All funds of the Railroad on deposit at financial institutions have federal depository insurance and collateral held by the Railroad's agent in the Railroad's name.

**Note 3 - Risk Management**

The Railroad has no employees. Officers of the Railroad are bonded for \$50,000 through the RLI Insurance Company.

**Gibson County Railroad Authority**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 4 – Notes Receivable**

The Railroad has loaned the City of Trenton Economic and Industrial Development Board \$100,000 at 1.5% interest in the form of a demand note. There is no collateral. This note is part of a joint effort between the Railroad and the City of Trenton Economic and Industrial Development Board to promote industry in Gibson County. The proceeds of the note were used to help construct a shell building to attract industrial prospects. The building has railroad access. Based on TCA 7-59-205, the Railroad has the authority to invest in property that is suitable for industry using the rail service.

**Report on Internal Control Over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements Performed  
in Accordance with *Government Auditing Standards***

To the Board of Directors  
Gibson County Railroad Authority

We have audited the financial statements of the governmental activities and the major fund of Gibson County Railroad Authority, as of and for the year ended June 30, 2013 which collectively comprise the Gibson County Railroad Authority's basic financial statements and have issued our report thereon dated December 17, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Gibson County Railroad Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of Gibson County Railroad Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Gibson County Railroad Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain

deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies in internal control over financial reporting: findings 2011-01, 2011-02, and 2011-03 are considered significant deficiencies.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gibson County Railroad Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Gibson County Railroad Authority in a separate letter dated December 17, 2013

### Authority's Response to Findings

Gibson County Railroad Authority's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit Gibson County Railroad Authority's response and, accordingly, we express no opinion on it.

### Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Gregory N. Lee, CPA  
Humboldt, Tennessee  
December 17, 2013

**Gibson County Railroad Authority**  
**Schedule of Findings & Responses**  
**June 30, 2013**

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**A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Gibson County Railroad Authority.
2. Significant deficiencies were disclosed during the audit. The significant deficiencies are as shown in Part B. None of the significant deficiencies are material weaknesses.

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**2011-01 – Significant Deficiency: Management Oversight and Monitoring**

***Condition:***

Financial Statements are not reviewed by the Board of Directors on a periodic basis.

***Criteria:***

The financial statements should be presented to and reviewed by the governing body on a periodic basis.

***Cause:***

Poorly designed policies and procedures.

***Effect:***

Misstatements due to error or fraud could occur without being detected and corrected.

***Recommendation:***

Financial statements should be reviewed by the Board of Directors on a periodic basis, either monthly or quarterly.

***Management Response:***

Management concurs with the finding. At present, the Board of Directors does not meet on a monthly basis. However, we understand the important nature of this control procedure, and we will consider ways in which the financial statements can be reviewed by the governing body.

**2011-02 – Significant Deficiency: Independent Review of Bank Statements and Bank Reconciliation**

***Condition:***

Bank statements are not reviewed by a person independent of the reconciliation process prior to being presented for reconciliation. Likewise, the bank reconciliation is not reviewed by a person independent of the reconciliation process.

**Gibson County Railroad Authority**  
**Schedule of Findings & Responses**  
**June 30, 2013**

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***Criteria:***

Internal control procedures should be sufficient to decrease the risk of material misstatements due to errors or fraud.

***Cause:***

Poorly designed policies and procedures.

***Effect:***

Misstatements due to error or fraud could occur without being detected and corrected.

***Recommendation:***

The bank statements should be reviewed by a person independent of the reconciliation process before being presented for reconciliation. Also, the reconciliation should be reviewed by a person independent of the reconciliation process.

***Management Response:***

Management concurs with the finding. Management considers this to be a good internal control procedure and will consider implementing it.

**2011-03 – Significant Deficiency: No Budget**

***Condition:***

No budget is adopted by the organization.

***Criteria:***

A budget should be adopted each year, and results compared against the budgeted amounts.

***Cause:***

Poorly designed policies and procedures.

***Effect:***

Misstatements due to error or fraud could occur without being detected and corrected.

***Recommendation:***

A budget should be adopted each year, and results should be compared against the budgeted amounts on a periodic basis.

***Management Response:***

Management concurs with this finding, but feels that, due to the unique “pass-through” nature of the organization’s revenue and significant expenses, a budget is not a useful tool.

**Management Letter**

To the Board of Directors  
Gibson County Railroad Authority  
Trenton, Tennessee

In planning and performing our audit of the financial statements of Gibson County Railroad Authority for the year ended June 30, 2013 in accordance with auditing standards generally accepted in the United States of America, we considered Gibson County Railroad Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gibson County Railroad Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Gibson County Railroad Authority's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate letter dated December 17, 2013 contains our communication of significant deficiencies or material weaknesses in the Gibson County Railroad Authority's internal control. This letter does not affect our report dated December 17, 2013, on the financial statements of Gibson County Railroad Authority.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with management of Gibson County Railroad Authority, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

1. Two signatures are not required on checks. Requiring two signatures on all checks or on checks which exceed a pre-defined threshold can serve to further strengthen internal control and operating efficiency over cash disbursements and help to further reduce the risk of misstatement due to error or fraud.

This report is intended solely for the information and use of management, the shareholders, and others within Gibson County Railroad Authority and is not intended to be and should not be used by anyone other than these specified parties.



Gregory N. Lee, CPA  
Humboldt, Tennessee  
December 17, 2013

**Gibson County Railroad Authority**  
**Schedule of Expenditures of Federal, State, and Local Awards**  
**For the Year Ended June 30, 2013**

Federal Grantor/Pass-Through Grantor	CFDA Number	Contract Number	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
<b><u>Federal Awards</u></b>						
<i>None</i>						
<b><u>State Financial Assistance</u></b>						
TN Dept of Transportation		Z-10-220811-00		4,689	4,689	
		Z-10-220829-00		22,552	22,552	
		Z-11-RE2048-00		7,437	7,437	
		Z-11-RR1023-00		8,721	8,721	
		Z-12-RE1026-00		14,687	14,687	
		Z-12-RE1044-00		13,500	13,500	
		Z-12-RR1010-00		1,380	1,380	
		Z-12-RR1022-01		1,092,112	1,092,112	
		Z-12-RR1037-00		137,324	137,324	
		Z-13-RE2041-00		7,008	7,008	
Sub-Total				1,309,409	1,309,409	
<b>TOTAL FEDERAL &amp; STATE AWARDS</b>			-	1,309,409	1,309,409	-