

AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

**TRI-COUNTY RAILROAD  
AUTHORITY, INC.**

Sparta, Tennessee  
June 30, 2014

**WINNETT**  
*Associates, PLLC*

Certified Public Accountants and Consultants

# CONTENTS

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Independent Auditor’s Report.....	Page	3
Basic Financial Statements:		
Statement of Net Position and Governmental Fund Balance Sheet .....		5
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances.....		6
Notes to Financial Statements.....		7
Supplementary Information:		
Schedule of Expenditures of Federal Awards and State Financial Assistance.....		14
Other Information:		
Organizational Data.....		15
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....		16
Schedule of Findings.....		18

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## **INDEPENDENT AUDITOR'S REPORT**

Tri-County Railroad Authority, Inc.  
Sparta, Tennessee

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

We have audited the accompanying financial statements of the governmental activities and the general fund of Tri-County Railroad Authority, Inc. as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority'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 general fund of Tri-County Railroad Authority, Inc. as of June 30, 2014, and the respective changes in its financial position 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 the 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 opinions on the financial statements that collectively comprise Tri-County Railroad Authority's basic financial statements. The schedule of expenditures of federal awards and state financial assistance and the organizational data are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards and state financial assistance is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and state financial assistance is fairly stated in all material respects in relation to the basic financial statements as a whole.

The organizational data has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2015, on our consideration of Tri-County Railroad Authority, Inc.'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 Tri-County Railroad Authority's internal control over financial reporting and compliance.

*Winnett Associates, PLLC*

February 2, 2015

**TRI-COUNTY RAILROAD AUTHORITY, INC.**  
**STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET**

June 30, 2014

	General Fund	(Note H) Adjustments	Statement of Net Position
<b>ASSETS</b>			
Cash in bank	\$ 231,351	\$ -	\$ 231,351
Certificates of deposit	50,000	-	50,000
State grants receivable	12,637	-	12,637
Lease income receivable	9,295	-	9,295
Prepaid expenses	688	-	688
Capital assets	-	2,476,799	2,476,799
TOTAL ASSETS	<u>\$ 303,971</u>	<u>2,476,799</u>	<u>2,780,770</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 12,695	-	12,695
TOTAL LIABILITIES	<u>12,695</u>	<u>-</u>	<u>12,695</u>
<b>FUND BALANCES/ NET POSITION</b>			
Fund balances:			
Nonspendable - prepaid insurance	688	(688)	-
Unassigned	290,588	(290,588)	-
TOTAL FUND BALANCES	<u>291,276</u>	<u>(291,276)</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 303,971</u>		
Net position:			
Investment in capital assets		2,476,799	2,476,799
Unrestricted		291,276	291,276
TOTAL NET POSITION		<u>\$ 2,768,075</u>	<u>\$ 2,768,075</u>

The accompanying notes are an integral part of this financial statement.

**TRI-COUNTY RAILROAD AUTHORITY, INC.**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND**  
**REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**Year ended June 30, 2014**

	General Fund	(Note I) Adjustments	Statement of Activities
<b>Expenditures/expenses:</b>			
Railroad - operations	\$ 58,080	\$ 48,876	\$ 106,956
Capital outlay	265,708	(265,708)	-
Total expenditures/expenses	<u>323,788</u>	<u>(216,832)</u>	<u>106,956</u>
<b>Program revenue:</b>			
Charges for services	34,186	-	34,186
Operating grants	51,272	-	51,272
Capital grants	265,708	-	265,708
Total program revenues	<u>351,166</u>	<u>-</u>	<u>351,166</u>
Net program revenue			<u>244,210</u>
<b>General revenues:</b>			
Investment earnings	489	-	489
Total general revenues	<u>489</u>	<u>-</u>	<u>489</u>
Excess of revenues over expenditures	27,867	(27,867)	-
Change in net position	-	244,699	244,699
<b>Fund balance/ net position:</b>			
Beginning of the year	263,409	2,259,967	2,523,376
End of the year	<u>\$ 291,276</u>	<u>\$ 2,476,799</u>	<u>\$ 2,768,075</u>

The accompanying notes are an integral part of this financial statement.

**NOTES TO FINANCIAL STATEMENTS**  
**TRI-COUNTY RAILROAD AUTHORITY, INC.**

**June 30, 2014**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Tri-County Railroad Authority, Inc. (the Authority) was created by an act of the Tennessee legislature in 1981 to purchase from Seaboard System Railroad, Inc., the property, track, and roadbed along 60.1 miles in Coffee, Warren, and White Counties known as the Sparta Branch line.

The operations of the Authority are conducted by a board of directors whose members are appointed by the governing bodies of Coffee, Warren, and White Counties of Tennessee.

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below:

(1) Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided and 2) grants and contributions that are restricted to meeting operational or capital requirements. Taxes and other items not properly included among program revenues are reported instead as general revenues.

(2) Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

NOTES TO FINANCIAL STATEMENTS (Continued)

TRI-COUNTY RAILROAD AUTHORITY, INC.

June 30, 2014

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(2) Measurement focus, basis of accounting, and financial statement presentation (Continued)

In the fund financial statements, governmental funds report fund balance in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in these funds can be spent. These classifications may consist of the following:

Nonspendable fund balance – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted fund balance – includes amounts that have constraints placed on the use of the resources that are either (a) externally imposed by creditors, grantors, contributors or laws and regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal vote of the Authority's Board of Directors, the Authority's highest level of decision-making authority.

Assigned fund balance – includes amounts that are constrained by the Authority's intent to be used for specific purposes, but are neither restricted nor committed. The Authority's Board of Directors has not authorized anyone to make assignments.

Unassigned fund balance – the residual classification of the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

Sometimes the Authority will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). When this occurs the Authority's Board of Directors will determine the best use of funds based on the specific facts and circumstances at that time.

(3) Net position flow assumption

The Authority will on occasion fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

NOTES TO FINANCIAL STATEMENTS (Continued)

TRI-COUNTY RAILROAD AUTHORITY, INC.

June 30, 2014

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(4) Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority does not have any items that qualify for reporting in this category as of June 30, 2014.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Authority does not have any items that qualify for reporting in this category as of June 30, 2014.

(5) Budgeting

There is no legal requirement that a budget be established; however, a budget was prepared for the year ended June 30, 2014.

(6) Capital assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the government-wide financial statements if they have an estimated useful life in excess of two years. Capital assets are recorded at their historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Depreciation is calculated over the estimated useful lives of the individual assets on a straight-line basis.

The Authority has elected not to report major general infrastructure assets retroactively. The result of this election is that all costs of the railroad and related infrastructure, such as bridges, incurred prior to July 1, 2003, are excluded from these financial statements.

NOTE B - CONTRACTS

The Authority has entered into a fifty-year lease with Caney Fork and Western Railroad, Inc. to operate the railroad line. This lease grants the operator an option to purchase all existing real and personal property owned by the Authority. The lease may be terminated by agreement of both parties upon ten days written notice.

Under the terms of the lease, the Authority is required to rehabilitate the line. After the rehabilitation, the operator will provide appropriate maintenance of the line. The operator is to make annual payments between 1% and 4% of its gross revenues. Amounts paid by the operator for the year ended June 30, 2014, totaled \$34,185.

NOTES TO FINANCIAL STATEMENTS (Continued)

TRI-COUNTY RAILROAD AUTHORITY, INC.

June 30, 2014

NOTE C - GRANTS

Tennessee Department of Transportation Grants

The Authority receives grants from the Tennessee Department of Transportation for the rehabilitation, repair and improvement of its rail line. A description of grants outstanding and the remaining amounts that are available follows:

<u>Description</u>	<u>Amount Available</u>
Contract Z13RR1009	<u>\$ 13,628</u>

In the event the railroad discontinues service, the Authority is required to return to the State of Tennessee a portion of the grants based on the State's pro rata share of the amortized value of materials installed as a result of these grants.

By letter dated September 20, 2013, the Commissioner of the State of Tennessee Department of Transportation notified the Authority of a Stop Work Notice applicable to all active grant contracts. This notice was necessary due to a lawsuit ruling the Tennessee Department of Revenue's (TDOR) taxing of diesel fuel assessed to the plaintiff was discriminatory and a violation of the Railroad Revitalization and Regulatory Reform Act of 1976. Because of the cut in funding The Department of Transportation passed new regulation (House Bill No. 1769) that created a per gallon tax of \$0.17 per gallon. This bill was to take effect on July 1, 2014. The plaintiff from the previous lawsuit filed a new lawsuit to block the state from collecting this tax. As of this time it is uncertain as to the outcome of the new lawsuit. Were the State of Tennessee to be unable to carry out the Act, which is intended to fund revitalization grant contracts, it would have a significant adverse impact on the Authority's long-range capital improvement program.

NOTE D - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets, errors and omissions, personal injuries and natural disasters. The Authority's only two significant assets are cash and capital assets. To insure cash, the Authority purchases fidelity bonds on the two board members who handle cash. The capital assets are not normally insurable. Management believes that any other losses would not be significant and handled through the Authority's general fund at the time of the loss.

NOTE E - EXEMPTION FROM INCOME TAX

As a public governmental corporation the Authority is exempt from federal, state, county and municipal income taxes.

NOTE F - DEPOSITS AND INVESTMENTS

The Authority is authorized by law to invest idle funds in obligations of the U.S. Government or its agencies, repurchase agreements, secured certificates of deposit and other evidences of deposit at state and federal chartered banks and savings and loan associations. The Authority may also choose to invest idle funds in the pooled investment fund established by Title 9, Chapter 4, Part 7, *Tennessee Code Annotated*.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**TRI-COUNTY RAILROAD AUTHORITY, INC.**

**June 30, 2014**

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**NOTE F - DEPOSITS AND INVESTMENTS (Continued)**

The Authority does not have a formal policy that limits custodial credit risk for deposits. Custodial credit risk is the risk that in the event of a bank failure the Authority's deposits may not be returned to it. However, the Authority follows state statutes requiring all deposits with financial institutions to be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Public fund accounts covered by the pool are considered to be insured for purposes of custodial credit risk exposure. For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the government.

The Authority has chosen to invest all idle funds in certificates of deposit which, along with its checking account balance, are entirely covered by federal depository insurance.

**NOTE G - CONTINGENCIES**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims may constitute a liability. The amount, if any, of expenditures which may be disallowed by grantor agencies cannot be determined at this time; however, the Authority expects such amounts, if any, to be insignificant.

**NOTE H - EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE STATEMENT OF NET POSITION**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund balance sheet. Historical cost of capital assets net of depreciation at June 30, 2014 totaled \$2,476,799.

**NOTE I - EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE STATEMENT OF ACTIVITIES**

Governmental funds report capital outlays as expenditures while governmental activities report the cost of capital outlays as an asset and report depreciation expense to allocate those expenditures over the life of the assets. Depreciation expense for the year ended June 30, 2014, totaled \$48,876.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**TRI-COUNTY RAILROAD AUTHORITY, INC.**

**June 30, 2014**

NOTE J - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Right of way	\$ 80,647	\$ -	\$ -	\$ 80,647
Construction in progress	<u>681,464</u>	<u>-</u>	<u>681,464</u>	<u>-</u>
	<u>762,111</u>	<u>-</u>	<u>684,464</u>	<u>80,647</u>
Capital assets, being depreciated				
Buildings	230,000	-	-	230,000
Bridges	1,488,241	-	-	1,488,241
Track	<u>-</u>	<u>947,172</u>	<u>-</u>	<u>947,172</u>
Total capital assets, being depreciated	1,718,241	947,172	-	2,665,413
Less accumulated depreciation for:				
Buildings	(111,166)	(5,750)	-	(116,916)
Bridges	(109,219)	(37,206)	-	(146,425)
Track	<u>-</u>	<u>(5,920)</u>	<u>-</u>	<u>(5,920)</u>
Total accumulated depreciation	(220,385)	(48,876)	-	(269,261)
Total capital assets being depreciated, net	<u>1,497,856</u>	<u>898,296</u>	<u>-</u>	<u>2,396,152</u>
Capital assets, net	<u>\$ 2,259,967</u>	<u>\$ 898,296</u>	<u>\$ 681,464</u>	<u>\$ 2,476,799</u>

## **SUPPLEMENTARY INFORMATION**

**TRI-COUNTY RAILROAD AUTHORITY, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE**

Year ended June 30, 2014

Grantor Agency	CFDA Number	Contract Number	Beginning Accrued	Cash Receipts	Expenditures	Adjustments	Ending Accrued
<u>FEDERAL AWARDS</u>							
None							
<u>STATE FINANCIAL ASSISTANCE</u>							
TN Dept. of Transportation	N/A	GG1030803	\$ -	\$ (383)	\$ 383	\$ -	\$ -
TN Dept. of Transportation	N/A	Z11RE2040	-	(2,018)	2,018	-	-
TN Dept. of Transportation	N/A	Z11RE2059	-	(426)	426	-	-
TN Dept. of Transportation	N/A	Z12RE1055	-	(13,046)	13,046	-	-
TN Dept. of Transportation	N/A	Z12RE1037	-	(2,886)	2,886	-	-
TN Dept. of Transportation	N/A	Z12RE1019	1,932	(14,055)	12,123	-	-
TN Dept. of Transportation	N/A	Z11RE2022	-	(457)	457	-	-
TN Dept. of Transportation	N/A	Z13RR1005	-	(373)	373	-	-
TN Dept. of Transportation	N/A	Z13RR1010	177,103	(183,231)	6,128	-	-
TN Dept. of Transportation	N/A	Z13RE2035	8,868	(14,292)	5,424	-	-
TN Dept. of Transportation	N/A	Z13RR1009	120,482	(373,553)	265,708	-	12,637
TN Dept. of Transportation	N/A	Z13RE2017	-	(8,008)	8,008	-	-
TOTAL STATE FINANCIAL ASSISTANCE			<u>\$ 308,385</u>	<u>\$ (612,728)</u>	<u>\$ 316,980</u>	<u>\$ -</u>	<u>\$ 12,637</u>

**Note 1:** This Schedule of Expenditures of Federal Awards and State Financial Assistance summarizes the expenditures of Tri-County Railroad Authority, Inc. under programs of the federal and state governments for the year ended June 30, 2014. The schedule is presented using the modified accrual basis of accounting.

See independent auditor's report.

**ORGANIZATIONAL DATA**  
**TRI-COUNTY RAILROAD AUTHORITY, INC.**

**June 30, 2014**

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CREATED

April 3, 1981, pursuant to Tennessee Code Annotated 7-56-201, et seq.

PURPOSE OF AUTHORITY

To provide for the continuation of rail service on a section of existing rail and spur lines located within Coffee, Warren, and White Counties between the cities of Tullahoma and Sparta.

OFFICERS

Herd Sullivan	Chairman
Jody Baltz	Vice-Chairman
Jana Wilson-Ringemann	Secretary
Johnnie Brown	Treasurer

DIRECTORS

Tom Rice  
Royce Davenport  
Ernie Cheek  
Jim Ward  
Ray Spivey  
Terry Dendy  
Lonnie Norman  
Jim Brock  
Pete Sands  
Donald Miller  
Sue Anderson  
Jeff Young  
Wallace G. Austin  
Lee Yoder

See independent auditor's report.

**INDEPENDENT AUDITORS' 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**

Tri-County Railroad Authority, Inc.  
Sparta, Tennessee

We have audited, 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, the financial statements of the governmental activities and the general fund of Tri-County Railroad Authority, Inc. as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Tri-County Railroad Authority Inc.'s basic financial statements, and have issued our report thereon dated February 2, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Tri-County Railroad Authority Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tri-County Railroad Authority Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Tri-County Railroad Authority Inc.'s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control that we consider to be material weaknesses

*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. We consider the deficiencies described in the accompanying schedule of findings to be material weaknesses. (2012-1 and 2012-2) *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.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Tri-County Railroad Authority Inc.'s financial statements are free from 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*.

## **Tri-County Railroad Authority, Inc.'s Responses to Findings**

Tri-County Railroad Authority, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings. Tri-County Railroad Authority, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **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.

*Winnett Associates, PLLC*

February 2, 2015

**SCHEDULE OF FINDINGS**  
**TRI-COUNTY RAILROAD AUTHORITY, INC.**

June 30, 2014

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**Prior Year**

**FINDING 2012–1 Lack of Segregation of Duties**

*Condition, Criteria, Cause and Effect:* Due to the lack of administrative personnel employed by the Authority, there is an inappropriate segregation of duties related to accounting responsibilities. Specifically, the duties of depositing customer payments, recording customer payments and all disbursements in the accounting records, reconciling the checking account, and preparing financial reports reviewed by the Board are performed by one individual.

*Status:* This condition continues to exist.

*Recommendation:* We acknowledge that the limited number of personnel precludes ideal segregation of duties for cash receipts and disbursements functions. However, we recommend that, whenever possible, responsibilities be reassigned to prevent an individual from having control over a transaction from beginning to end.

*Management Response:* We feel the cost to fully correct this internal control weakness would exceed the benefits. However, we will review our procedures and segregate duties where possible.

**FINDING 2012–2 Lease Income**

*Condition, Criteria, Cause and Effect:* The railroad operator prepares reports detailing the quarterly calculation of lease payments to the Authority. It is our understanding that these reports are the only information the Authority relies on as to the accuracy of the lease payments. It is our understanding that the Authority has the right to inspect the revenue records of the railroad operator.

*Status:* This conditions continues to exist.

*Recommendation:* We recommend the Authority review revenue records of the operator sufficient to determine the correctness of the lease payments.

*Management Response:* We will review this situation and related contracts and proceed accordingly.

**Current Year**

None additional