

**CHEATHAM COUNTY  
RAIL AUTHORITY**

**JUNE 30, 2014**

**TAMARA L. BECKMAN  
CERTIFIED PUBLIC ACCOUNTANT**

**CHEATHAM COUNTY  
RAIL AUTHORITY  
JUNE 30, 2014**

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**TAMARA L. BECKMAN, CPA**  
CERTIFIED PUBLIC ACCOUNTANT

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of the  
Cheatham County Rail Authority  
Ashland City, Tennessee 37015

**Report on the Financial Statements**

I have audited the accompanying financial statements of Cheatham County Rail Authority, a jointly governed organization with Metropolitan Davidson County and Cheatham County, TN as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Cheatham County Rail 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 the 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**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Cheatham County Rail Authority, a jointly governed organization of Metropolitan Davidson County and Cheatham County, TN, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter Regarding Going Concern**

The accompanying financial statements have been prepared assuming the Cheatham County Rail Authority will continue as a going concern. As discussed in Note 10 to the financial statements, the Authority's state funds for maintenance and improvements has been frozen by the State of Tennessee Transportation Department. Management's plans regarding those matters are also described in Note 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. My opinion is not modified with respect to this matter.

**Other Matters**

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management Discussion be presented to supplement the basic financial statements. Such 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 historic context.

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. The auditor's opinion on the basic financial statements is not affected by this missing information.

**Supplementary Information**

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Cheatham County Rail Authority's basic financial statements. The schedule of officials on page 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of officials is the responsibility of management and was derived from and relate 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 my opinion, the schedule of officials 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*, I have also issued my report dated January 21, 2015 on my consideration of Cheatham County Rail Authority's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Cheatham County Rail Authority's internal control over financial reporting and compliance.

*Tamara L. Beckman, CPA*

January 21, 2015  
Cookeville, Tennessee

**CHEATHAM COUNTY RAIL AUTHORITY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2014**

**ASSETS**

**Current Assets**

Cash and Cash Equivalents	\$ 136,190.23	
Grants Receivable	-	
Accounts Receivable	<u>23,466.04</u>	
<b><u>Total Current Assets</u></b>		<b>\$ 159,656.27</b>

**Capital Assets**

Land	260,212.00	
Track Rehabilitation	2,186,916.48	
Bridge Rehabilitation	3,709,383.36	
Less: Accumulated Depreciation	<u>(3,318,533.67)</u>	
<b><u>Total Capital Assets</u></b>		<b><u>2,837,978.17</u></b>

<b><u>Total Assets</u></b>		<b>\$ 2,997,634.44</b>
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**LIABILITIES**

**Current Liabilities**

Accounts Payable	4,081.00
Interest Payable - FRA Note	2,852.05
FRA Note Payable - current portion	<u>119,528.17</u>

<b><u>Total Current Liabilities</u></b>	126,461.22
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Long-term Debt - FRA Note Payable	<u>1,215,084.02</u>
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<b><u>Total Liabilities</u></b>	<u>1,341,545.24</u>
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**NET POSITION**

Net Investment in Capital Assets	1,503,365.98
Unrestricted Net Position	<u>152,723.22</u>

<b><u>Total Net Position</u></b>	<b><u>\$ 1,656,089.20</u></b>
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The accompanying notes are an integral part of the financial statements

**CHEATHAM COUNTY RAIL AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2014**

<u>Operating Revenues</u>		
Rail Income	\$ 54,979.88	
Lease Income	<u>21,033.04</u>	
<b>Total Operating Revenues</b>		<b>\$ 76,012.92</b>
 <u>Operating Expense</u>		
Accounting	1,800.00	
Audit	3,250.00	
Advertising	64.47	
Engineering	43,393.52	
Legal	38,906.50	
Dues & Fees	2,577.00	
Board Expense	8.00	
Depreciation Expense	<u>79,253.55</u>	
<b>Total Operating Expenses</b>		<b><u>169,253.04</u></b>
Net Operating Income (Loss)		<b>\$ (93,240.12)</b>
 <u>Non-operating Revenue and Expense</u>		
Interest Expense	(72,873.53)	
Contributions from NWRC	139,969.26	
Grant & Reimbursement Income	<u>70,940.14</u>	
<b>Total Non-operating Revenue and Expense</b>		<b><u>138,035.87</u></b>
 <b>Increase in Net Position</b>		 <b>44,795.75</b>
Total Net Position - June 30, 2013		<u>1,611,293.45</u>
Total Net Position - June 30, 2014		<u><u>\$ 1,656,089.20</u></u>

The Accompanying notes are an integral part of the financial statements

**CHEATHAM COUNTY RAIL AUTHORITY**  
**STATEMENT OF CASH FLOW**  
**JUNE 30, 2014**

Cash Flows From Operating Activities

Cash Received from Operations	\$ 61,413.44	
Cash Payments for Goods and Services	<u>(313,747.20)</u>	
Net Cash Provided by (Used by) Operating Activities		\$ (252,333.76)

Cash Flows from Capital & Related Financing Activities

Track & Bridge Rehabilitation Construction	\$ (27,153.76)	
Contributions from NWRC for Notes Payable	139,969.26	
Principal paid on Notes Payable	(113,509.58)	
Interest paid on Notes Payable	<u>(73,116.10)</u>	
Net Cash Used by Capital & Related Financing Activities		(73,810.18)

Cash Flows from Non-Capital Financing Activities

Grant Income Received	<u>300,035.11</u>	
Net Cash Provided by Non-Capital Financing Activities		<u>300,035.11</u>

Net Decrease in Cash and Cash Equivalents		(26,108.83)
Cash and Cash Equivalent at 6-30-13		<u>162,299.06</u>
Cash and Cash Equivalent at 6-30-14		<u>\$ 136,190.23</u>

Reconciliation of Net Operating Income (Loss) to Net Cash

<u>Used by Operating Activities</u>		
Net Operating Income (Loss)	\$ (93,240.12)	
Depreciation	79,253.55	
Increase in Accounts Receivable	(14,599.48)	
Decrease in Accounts Payable	<u>(223,747.71)</u>	

<u>Net Cash Provided by Operating Activities</u>		<u>\$ (252,333.76)</u>
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The Accompanying notes are an integral part of the financial statements

**CHEATHAM COUNTY  
RAIL AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014**

Note 1 – General Statement and Summary of Significant Accounting Policies

The Cheatham County Rail Authority was established in 1986 as a state governmental entity under the laws of Tennessee to acquire the unused facilities of a short-line railroad of approximately twenty-eight miles running between Nashville and Ashland City, and to encourage the continuation of railroad service to Cheatham County. Cheatham County Rail Authority is a jointly governed organization between Cheatham County and Metropolitan Davidson County, Tennessee. Metropolitan Davidson County appoints two members to the Rail Authority's Board of Directors. The other members are approved by the Cheatham County Commission. The legislative bodies have the authority to reject all nominations and make nominations from the floor. All changes to the By-Laws are subject to approval by the Cheatham County Commission. In 1988, Metropolitan Nashville and Davidson County established a railroad authority to join with the Cheatham County Rail Authority to share in the operation and ownership of the railroad. The Authority incorporated under Tennessee law as a Municipal Corporation on July 25, 1994. The Authority has contracted with an independent corporation to operate the railroad.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis of accounting when the exchange takes place. Non-exchange transactions, in which the District receives value without directly giving value, in return, include grants and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. On an accrual basis, expenses are recognized at the time they are incurred.

The following is a summary of the Authority's significant accounting policies.

A. Basis of Accounting

The Cheatham County Rail Authority presents its financial statements on the accrual basis of accounting. Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. Revenues are recognized when they become measurable, and expenses are recognized when the related liabilities are incurred.

B. Measurement Focus

The operations of the Authority are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenditures. Measurement focus refers to what is being measured. The Authority uses the economic resources measurement focus. Accordingly, it reports all assets and liabilities on the statement of net assets. The reported net position is segregated into three components: net investment in capital assets; restricted; and unrestricted. The Authority's operating statement presents increases (revenues) and decreases (expenses) in net position.

C. Property, Plant & Equipment and Depreciation

Capital assets are recorded at cost. Construction period interest is capitalized. The Authority capitalizes any capital assets with a cost over \$500 that have an estimated life of more than one year, using the straight-line depreciation method.

D. Budgetary Data

Annual operating budgets are to be adopted each year and amended as required on the same basis of accounting to reflect actual revenues and expenditures recognized by generally accepted accounting principles.

E. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affects certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits with original maturities of three months or less with local financial institutions.

G. Operating and Non-operating Income

The Authority considers rail and easement and lease income to be operating and grants income and contributions from NWRC to be non-operating.

Note 2 – Cash and cash investments

The Tennessee Government Code requires Tennessee banks and savings and loan associations to secure a governmental entity's deposits by pledging government securities as collateral. The market value of pledged securities must equal 105% of the entity's deposits. The entity may waive collateral requirements for deposits that are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

The following is a schedule of bank accounts at June 30, 2014:

Checking – Community B & T \$136,190.23

At June 30, 2014, the carrying amount of the Cheatham County Rail Authority’s cash deposits was \$136,190.23. The Authority’s deposit accounts are covered up to \$250,000 by the Federal Deposit Insurance Corporation. Any amounts over \$250,000 are covered by the government collateralization pool of which Community Bank & Trust is a member. The Authority is authorized to deposit and invest funds according to the provisions of Section 5-8-301 of the Tennessee Code Annotated. [Acts 1992, ch. 891, section 10].

Note 3 – 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; and natural disasters. The Authority has elected not to obtain insurance policies to transfer risk to a commercial insurance company either directly or through the Tennessee County Services Pool and is, in effect, self-insured with an unfunded plan. The Authority was named as “an additional insured” on the NWRC’s liability insurance policy but only with respect to liability arising out of the operations of the Operator.

Note 4 – Schedule of Capital Assets

The schedule of capital assets and accumulated depreciation is as follows:

Asset Not Capitalized

	Balance			Balance
<u>Assets</u>	<u>6-30-13</u>	<u>Additions</u>	<u>Disposals</u>	<u>6-30-14</u>
Land	\$ 260,212.00	\$ --	\$ --	\$ 260,212.00

Assets Capitalized

Rail Line Rehabilitation	2,186,916.48	--	--	2,186,916.48
Bridge Rehabilitation	<u>3,682,229.60</u>	<u>27,153.76</u>	<u>--</u>	<u>3,709,383.36</u>
	<u>5,869,146.08</u>	<u>27,153.76</u>	<u>--</u>	<u>5,896,299.84</u>
Total Capital Assets	<u>\$6,129,358.08</u>	<u>\$ 27,153.76</u>	<u>\$ --</u>	<u>\$6,156,511.84</u>

Accumulated Depreciation

	Balance			Balance
	<u>06-30-13</u>	<u>Additions</u>	<u>Disposals</u>	<u>06-30-14</u>
Rail Line Rehab	\$ 928,799.71	\$ 35,674.06	\$ --	\$ 964,473.77
Bridge Rehab	<u>2,310,480.41</u>	<u>43,579.49</u>	<u>--</u>	<u>2,354,059.90</u>
Total Accum. Depr.	<u>\$3,239,280.12</u>	<u>\$ 79,253.55</u>	<u>\$ --</u>	<u>\$3,318,533.67</u>

Note 5 – Notes Payable

On April 21, 2003, the Authority and the Operator (Nashville & Western Railroad; NWRC) entered into a Federal Railroad Administration (FRA) loan agreement with the State of Tennessee in the amount of \$2.3 million. The State agreed to make periodic payments to the Authority/Operator to the extent that such funds are allocated by the State to the Authority/Operator. The State agreed that 85% of the funds received from Tennessee Department of Transportation (TDOT) can be used to pay the FRA loan each year. The loan remains on the Rail Authority’s records because they own the collateral for the loan. However, all payments to the FRA are to be made directly from Nashville & Western with reimbursement coming from the Rail Authority after funds are received from TDOT.

Beginning with this current fiscal year, TDOT suspended all allocations of funds to the Rail Authority. Per the loan agreement with NWRC, Nashville & Western continued to make payments on the loan. Three payment were made on the loan during the current fiscal year without reimbursement from the Rail Authority. These amounts are recorded as payments on the FRA loan and contributions income from NWRC. Current year activity and amortization of the loan are as follows:

a) Schedule of Changes in Long-Term Notes Payable

Interest payable for this loan at June 30, 2014 was \$2,852.05 and interest expense was \$72,873.53.

<u>Balance</u> <u>June 30, 2013</u>	<u>New</u> <u>Issue</u>	<u>Payments Made</u> <u>by Rail Authority</u>	<u>Payment Made</u> <u>by NWRC</u>	<u>Balance</u> <u>June 30, 2014</u>
<u>\$1,448,121.77</u>	<u>\$ -0-</u>	<u>\$ (28,786.56)</u>	<u>\$ (84,723.02)</u>	<u>\$1,334,612.19</u>

b) Amortization Schedule

For Fiscal Year Ended June 30,

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	119,528.17	67,097.51	186,625.68
2016	125,781.00	60,844.68	186,625.68
2017	132,614.11	54,011.57	186,625.68
2018	139,566.71	47,058.97	186,625.68
2019	146,966.92	39,658.76	186,625.68
2020	154,715.00	31,910.68	186,625.68
2021	162,999.41	23,626.27	186,625.68
2022	171,605.63	15,020.05	186,625.68
2023	180,835.24	5,789.45	186,624.69
Total	<u>\$1,334,612.19</u>	<u>\$ 345,017.94</u>	<u>\$1,679,630.13</u>

Note 6 – Operating Agreement

In June, 2001, the Authority entered into an operating agreement with NWRC to provide rail services and to maintain and manage the trackage and right-of-way, which the Authority owns. The terms of this agreement require NWRC to pay the Authority quarterly plus 4% of gross revenue.

Note 7 – Net Investment in Capital Assets

The calculation for Net Investment in Capital Assets as stated on the Statement of Net Position is as follows:

Total Capital Assets	\$2,837,978.17
FRA Note Payable – current portion	( 119,528.17)
Long Term Debt – FRA Note Payable	<u>(1,215,084.02)</u>
Net Investment in Capital Assets	<u>\$1,503,365.98</u>

Note 9 – Subsequent Events

The Authority has evaluated subsequent events through January 21, 2015, the date in which the financial statements were available to be issued.

Note 10 – Going Concern

During the course of my audit, in performing audit procedures to achieve other audit objectives, I have identified conditions and events that indicate there could be a substantial doubt about the governmental unit's ability to continue as a going concern. This means that the entity could have an inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of operations, restructuring of debt, externally forced revisions of its operations, or similar actions.

Conditions and Events

Major railroad companies in Tennessee have won a lawsuit which repealed a percentage sales tax on diesel fuel which had been enacted by the state on railroads. The taxes collected had been going into the state's Transportation Equity Fund to be used by the state to fund repairs and improvements to the state's short-line railroads, one of which is the Cheatham County Rail Authority. Due to the loss of this lawsuit, the state Transportation Department has frozen all funds in the Short Line Equity Fund and will not release any of that money to any of the 18 state short lines that depend on the money

for maintenance and improvement projects. Without this state funding, the Cheatham County Rail Authority does not have any reserve funds to meet their obligations.

There is a bill that will be discussed in the next session of the General Assembly to change the rail diesel tax to the same formula that is used by over-the-road trucks, which is now assessed at 18 cents per gallon. However, until the new tax plan can be worked through the legislature and put into place, which could take up to another year, the Rail Authority's source of funding remains frozen. State Representatives believe the General Assembly will be receptive to the replacement tax, but those funds might not be available to the Authority for the next year.

Management of the Rail Authority has not enacted a plan to obtain other funding as of the date of the audit report. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. My opinion on the financial statements is not modified with respect to this matter.

**CHEATHAM COUNTY  
RAIL AUTHORITY  
SCHEDULE OF OFFICIALS  
JUNE 30, 2014**

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**TAMARA L. BECKMAN, CPA**  
CERTIFIED PUBLIC ACCOUNTANT

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**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 of the  
Cheatham County Rail Authority  
Ashland City, Tennessee 37015

I have audited, in accordance with the auditing standards generally accepted in the United State 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 Cheatham County Rail Authority, a jointly governed organization with Metropolitan Davidson County and Cheatham County, TN, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Cheatham County Rail Authority's basic financial statements, and have issued my report thereon dated January 21, 2015.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered Cheatham County Rail Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cheatham County Rail Authority's internal control. Accordingly, I do not express an opinion on the effectiveness of Cheatham County Rail Authority's internal control.

*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.

My 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. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cheatham County Rail Authority's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### Purpose of This Report

The purpose of this report is solely to describe the scope of my 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.

*Tamara L. Beckman, CPA*

January 21, 2015  
Cookeville, Tennessee