MARION COUNTY RAILROAD AUTHORITY
JASPER, TENNESSEE

AUDIT REPORT

June 30, 2014

BEAN, RHOTON & KELLEY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
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MARION COUNTY RAILROAD AUTHORITY
JASPER, TENNESSEE
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June 30, 2014

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INTRODUCTORY SECTION - UNAUDITED

MARION COUNTY RAILROAD AUTHORITY
JASPER, TENNESSEE
INTRODUCTORY SECTION - UNAUDITED
June 30, 2014

ROSTER OF BOARD MEMBERS

John Graham, Chairman
Jasper, TN

Sheila Grider, Secretary - Treasurer
Jasper, TN

Paul Wayne Evans, Director
Jasper, TN

David Jackson, Director
Kimball, TN

Jane Dawkins, Director
South Pittsburg, TN

Mark Myers, Director
South Pittsburg, TN

BEAN, RHOTON & KELLEY, PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Marion County Railroad Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Marion County Railroad Authority, a jointly governed authority of Marion County, Tennessee and the municipalities of Jasper, Kimball, and South Pittsburg, 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.

Auditors' Responsibility

Our responsibility is to express an opinion 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 auditors' 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 auditors consider 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 opinion.

Opinion

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 Marion County Railroad Authority, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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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 required 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basis 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 that collectively comprise the Marion County Railroad Authority's basic financial statements. The introductory section and Schedule of Expenditures of State Financial Assistance are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of 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 State Financial Assistance is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section 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 January 13, 2015, on our consideration of the Marion 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 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 Marion County Railroad Authority's internal control over financial reporting and compliance.

Bean, Rhoton & Kelley, PLLC

Winchester, Tennessee
January 13, 2015

MARION COUNTY RAILROAD AUTHORITY
JASPER, TENNESSEE
GOVERNMENT-WIDE STATEMENT OF NET POSITION
June 30, 2014

	Governmental Activities	Total
ASSETS		
Cash	$ 6,448.39	$ 6,448.39
Total assets	6,448.39	6,448.39
NET POSITION		
Unrestricted	6,448.39	6,448.39
Total net position	$ 6,448.39	$ 6,448.39

There are no differences between net position for governmental activities and total fund balances per fund financial statements.

The accompanying notes are an integral part of the financial statements.

MARION COUNTY RAILROAD AUTHORITY
JASPER, TENNESSEE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended June 30, 2014

		Program Revenues	
	Expenses	Operating Grants and Contributions	Total
Functions/Programs			
Administrative	$ 4,000.00	$ 23,894.14	$ 19,894.14
Contract services	5,966.30	0.00	(5,966.30)
Contract services for accounting	2,700.00	0.00	(2,700.00)
Total governmental activities	$ 12,666.30	$ 23,894.14	11,227.84
		Change in net position	11,227.84
		Net position - beginning	(4,779.45)
		Net position - ending	$ 6,448.39

There are no differences between change in net position for governmental activities and change in total fund balances per fund financial statements.

The accompanying notes are an integral part of the financial statements.

MARION COUNTY RAILROAD AUTHORITY
JASPER, TENNESSEE
BALANCE SHEET
June 30, 2014

	General	Total Governmental Funds
ASSETS		
Cash	$ 6,448.39	$ 6,448.39
Total assets	$ 6,448.39	$ 6,448.39
FUND BALANCES		
Unassigned	$ 6,448.39	$ 6,448.39
Total fund balances	$ 6,448.39	$ 6,448.39

There are no differences between net position for governmental activities and total fund balances per fund financial statements.

The accompanying notes are an integral part of the financial statements.

MARION COUNTY RAILROAD AUTHORITY
JASPER, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
Year Ended June 30, 2014

	General	Total Governmental Funds
REVENUES		
Contributions from State of Tennessee	$ 23,894.14	$ 23,894.14
Total revenues	23,894.14	23,894.14
EXPENDITURES		
Administrative	4,000.00	4,000.00
Contract services	5,966.30	5,966.30
Contract services for accounting	2,700.00	2,700.00
Total expenditures	12,666.30	12,666.30
Excess of expenditures over revenues	11,227.84	11,227.84
Net change in fund balance	11,227.84	11,227.84
Fund balance - beginning	(4,779.45)	(4,779.45)
Fund balance - ending	$ 6,448.39	$ 6,448.39

There are no differences between change in net position for governmental activities and change in total fund balances per fund financial statements.

The accompanying notes are an integral part of the financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Activity

The Marion County Railroad Authority was created on September 28, 1998 by the Marion County Board of Commissioners in accordance with the provisions of T.C.A. 7-56-201. The primary purpose of the Authority is to provide for the continuation of rail service in Marion County. The Authority is a jointly governed authority operated by Marion County and the municipalities of South Pittsburg, Kimball, and Jasper, Tennessee. Marion County and the municipalities have no ongoing financial responsibility for the Authority. The Authority is a single purpose entity that does not have any component units and is not a component unit of any entity.

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, as well as the reported revenues and expenses. Actual results could vary from the estimates that were used.

Basic Financial Statements-Government-Wide Statements

The Authority's basic financial statements include both government-wide reporting and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as governmental or business type. The Authority's general administrative services are classified as governmental activities. There are no business-type activities.

In the Government-Wide Statement of Net Position, the governmental activities are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Authority's net position are reported in three parts-invested in capital assets, net of related debt; restricted net position; and unrestricted net position.

The Government-Wide Statement of Activities reports both the gross and the net cost of the Authority's functions. The functions are also supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function.

The net costs (by function) are normally covered by general revenue.

The Authority does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Authority as an entity and the change in the Authority's net position resulting from the current year's activities.

Basic Financial Statements-Fund Financial Statements

The financial transactions of the Authority are reported in individual funds in the fund financial statement. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The following fund types are used by the Authority:

Governmental Funds:
The focus of the governmental fund's measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Authority:

General fund is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

As of these financial statements, the Authority has adopted GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

Nonspendable - Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted - Amounts that can be spent only for specific purposes because of the Authority's Charter, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed - Amounts that can be used only for specific purposes determined by a formal action by the Authority Board's ordinance or resolution.

Assigned - Amounts that are designated by the Board for a specific purpose but are not spendable until a budget ordinance is passed by the Board.

Unassigned - All amounts not included in other spendable classifications.

The details of the fund balances are included in the Governmental Funds Balance Sheet (page 5). Any restricted funds are used first as appropriate. Assigned Funds are reduced to the extent that expenditure authority has been budgeted by the Board or the Assignment has been changed by the Board. Decreases to fund balance first reduce Unassigned Fund balance; in the event that Unassigned Fund Balance becomes zero, then Assigned and Committed Fund Balances are used in that order.

Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

1. Accrual: Governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual: The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgets

The Authority does not have a legal requirement to operate under an adopted budget. External approval or review of a budget is not mandated.

Capital Assets

The Authority does not have any infrastructure and does not retain title to any of the improvements made to the tracks and bridges. The Railroad Authority has no capital assets.

NOTE 2 – CASH DEPOSITS

The Authority is authorized to invest in the following types of securities and indebtedness, in accordance with governing statues:

(1) Bonds, notes, treasury bills or similar types of indebtedness to the United States.

(2) Non-convertible debt including Federal Home Loan Bank, Federal National Mortgage Association, Federal Farm Credit Bank, and Student Loan Marketing Association.

(3) Other obligations not specified above which provide guaranteed principal and interest by the United States or any of its agencies.

(4) Repurchase agreements which involve obligations of the United States or its agencies provided the term of the repurchase agreement does not extend beyond the maturity date of the obligation and the market value of the security exceeds the cost of the security.

(5) Money market funds invested in any of the aforementioned securities.

The carrying amount of total cash deposits (including petty cash) at June 30, 2014, is $6,448.39. With the exception of petty cash, all cash deposits were entirely covered by federal depository insurance or by collateral held by the Authority's custodial banks in the Authority's name.

NOTE 3 – GRANTS

During the year ended June 30, 2014, the Authority received grants from the Tennessee Department of Transportation. These grants were for the rehabilitation of tracks and bridges for the short-line railroad that serves the Jasper, Kimball and South Pittsburg areas of Marion County. The grants included engineering services related to the rehabilitation. The tracks and bridges are not owned by the Authority or by the county and municipal governments involved. Accordingly, the Authority does not have legal title to the improvements. The grant receipts are recorded as revenues and the expenditures are recorded as expenditures and changes in fund balance.

NOTE 4 – RISK

Since the Authority does not retain legal title to the railroad improvements, liability, and casualty insurance is the responsibility of the various contractors and owner of the railroad. The Authority is named as additional insured on the policies.

OTHER SUPPLEMENTARY INFORMATION

MARION COUNTY RAILROAD AUTHORITY
JASPER, TENNESSEE
OTHER SUPPLEMENTARY INFORMATION
Year ended June 30, 2014

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

Pass-Through Grantor	CFDA Number	Contract Number	Expenditures
State Financial Assistance			
TN Department of Transportation	N/A	Z13RR1013	$ 4,360.00
TN Department of Transportation	N/A	Z13RE2009	1,382.53
TN Department of Transportation	N/A	Z13RR1013	4,583.77
TN Department of Transportation	N/A	GG1132513	2,458.40
Total State Awards			$ 12,784.70

Basis of Presentation: The accompanying Schedule of Expenditures of State Financial Assistance summarizes the expenditures of Marion County Railroad Authority under programs of the state government for the year ended June 30, 2014. Schedule is presented using the modified accrual basis of accounting.

INTERNAL CONTROL AND COMPLIANCE SECTION

BEAN, RHOTON & KELLEY, PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STAEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Marion County Railroad Authority

We have audited, in accordance with the 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 major fund of Marion County Railroad Authority, a jointly governed authority of Marion County, Tennessee and the municipalities of Jasper, Kimball, and South Pittsburg, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Marion County Railroad Authority's basic financial statements and have issued our report thereon dated January 13, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Marion County Railroad Authority'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Marion County Railroad Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Marion County Railroad 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.

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 a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency [2009-001 and 2013-001].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marion County Railroad Authority'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.*

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Marion County Railroad Authority's Responses to Finding

Marion County Railroad Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Marion County Railroad Authority's responses were 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.

Bean, Ralston & Kelley, PLLC

Winchester, Tennessee
January 13, 2015

MARION COUNTY RAILROAD AUTHORITY
SCHEDULE OF PRIOR YEAR FINDINGS
June 30, 2014

Financial Statement Findings

Finding Numbers	Finding Title	Status
2009-001	Segregation of Duties	Repeated
2013-001	Significant Adjustments to the Year End Trial Balance	Repeated
2013-002	Fund Deficit	Corrected

MARION COUNTY RAILROAD AUTHORITY
JASPER, TENNESSEE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2014

I. Summary of Auditors' Results

A. The June 30, 2014 auditors' report expresses an unqualified opinion on the financial statements of the Marion County Railroad Authority.

B. Significant deficiencies in internal control were disclosed by the audit and are discussed below in findings 2009-001and 2013-001.

C. No findings were considered material weaknesses.

D. No instances of noncompliance were disclosed by the audit.

II. Findings Related to the Financial Statements, which are required to be reported in accordance with *Government Auditing Standards*.

(2009-001) Segregation of Duties

In our review of the overall accounting controls of the Authority's accounting system, we found several areas where proper segregation of duties might be obtained.

Recommendation:
Due to the lack of office staff, we do not believe a complete segregation of duties is possible that would eliminate all weaknesses in the Authority's accounting system. However, a thorough study of the internal control aspect of the accounting system should be considered by the Authority. Certain additional procedures and segregation of proper duties could increase the control over the assets.

Authority's Comment:
Because we have no employees, segregation of duties is a rough task. However, as time permits we hope to add additional controls over the accounting system in the future.

Disposition:
As of June 30, 2014, this problem still exists.

(2013-001) Significant Adjustments to the Year End Trial Balance

The Authority did not provide auditors with a substantially complete trial balance.

Recommendation:
Current standards relating to the internal control structure require an entity to make all material adjustments to their trial balance before giving it to the auditors, or to provide the auditors with any material adjustments that need to be made to the trial balance. Because of this significant deficiency, management may lack the controls necessary to present financial statements and footnotes in accordance with generally accepted accounting principles. Management should consider making all material adjustments to their trial balance in accordance with generally accepted accounting principles.

Authority's Comment:
This problem will be corrected in the coming year.

Disposition:
As of June 30, 2014, this problem still exists.

(2013-002) Fund Deficit

There is a fund deficit in the General Fund.

Disposition:
As of June 30, 2014, this problem no longer exists.