

**Gibson County Railroad Authority
Financial Statements
June 30, 2015**

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

Gibson County Railroad Authority Management

Management Officials

<u>Name</u>	<u>Position</u>
Tom Witherspoon	Chairman
Eric Partee	Vice-Chairman

Those Charged with Governance

Chris Younger
Ed Sims
Eric Partee
Gil Fletcher
Jimmy Harris
Johnny Martin
Larry Davidson
Marvin Sikes
Ricky Jackson
Tim Griggs
Tom Witherspoon
Virginia Davidson

Gibson County Railroad Authority
June 30, 2015

Table of Contents

<u>Page Title</u>	<u>Page</u>
Independent Auditor's Report	1
Statement of Net Assets	4
Statement of Activities	5
Fund Balance Sheet – Governmental Funds	6
Reconciliation of the Balance Sheet to the Statement of Net Assets – Governmental Funds	7
Statements of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	8
Reconciliation of the Statements of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Governmental Funds	9
Notes to the Financial Statements	10
Schedule of Expenditures of Federal, State, and Local Awards	15
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	16
Schedule of Findings & Responses	18
Schedule of Disposition of Prior Year Findings	20

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, 2015, 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, 2015, 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 January 27, 2016, 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". The signature is stylized with a large initial "G" and a long horizontal stroke extending to the right.

Gregory N. Lee, CPA
Humboldt, Tennessee
January 27, 2016

Gibson County Railroad Authority
Statement of Net Position
June 30, 2015

	<u>Primary Governmental Activities</u>
<u>Assets</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 743,641
Non-Current Assets:	
Notes Receivable	<u>92,875</u>
Total Assets	<u>836,516</u>
<u>Liabilities</u>	
None	<u>-</u>
Total Liabilities	<u>-</u>
<u>Net Position</u>	
Unrestricted (deficit)	<u>836,516</u>
Total Net Position	<u>\$ 836,516</u>

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, 2015

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
Primary Government					
Governmental Activities					
General Government	\$ 10,463		\$ 5,662		\$ (4,801)
Public Safety					-
Public Services					-
Culture & Recreation					-
Interest and Other Charges					-
Total Governmental Activities	10,463	-	5,662	-	(4,801)
General Revenues					
Interest					4,880
Total General Revenues					4,880
Change in Net Position					\$ 79
Net Position, July 1					836,437
Net Position, June 30					\$ 836,516

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

Gibson County Railroad Authority
Fund Balance Sheets
Governmental Funds
June 30, 2015

	<u>Primary Government</u>	
	<u>General Fund</u>	<u>Total Governmental Funds</u>
<u>Assets</u>		
Cash and Cash Equivalents	\$ 743,641	\$ 743,641
Notes Receivable	92,875	92,875
Total Assets	\$ 836,516	\$ 836,516
<u>Liabilities</u>		
None	-	-
Total Liabilities	-	-
<u>Fund Balances</u>		
Unassigned	836,516	836,516
Total Fund Balances	836,516	836,516
Total Liabilities & Fund Balances	\$ 836,516	\$ 836,516

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, 2015

Fund Balances - Total Governmental Funds	\$ 836,516
Net Position of Governmental Activities	<u>\$ 836,516</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, 2015

	<u>Primary Government</u>	
	<u>General Fund</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>		
Department of Transportation	\$ 5,662	\$ 5,662
Interest	4,880	4,880
Total Revenues	<u>10,542</u>	<u>10,542</u>
<u>Expenditures</u>		
Current Operating:		
General Government:		
Bank Charges	1	1
Dues & Subscriptions	6,000	6,000
Legal & Professional	3,962	3,962
Travel & Entertainment	500	500
Total Expenditures	<u>10,463</u>	<u>10,463</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 79</u>	<u>\$ 79</u>
Net Change in Fund Balances	<u>\$ 79</u>	<u>\$ 79</u>
Fund Balances, July 1	<u>836,437</u>	<u>836,437</u>
Fund Balances, June 30	<u>\$ 836,516</u>	<u>\$ 836,516</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, 2015

Net Change in Fund Balances - Total Governmental Funds	\$ 79
Change in Net Position of Governmental Funds	<u>\$ 79</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, 2015

Note 1 - Summary of Significant Accounting Policies

The Gibson County Railroad Authority (the Authority) was established in 1984, pursuant to TCA 7-56-201. The Authority 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 Authority 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 Authority 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 Authority 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 Authority'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 Authority has no non-major funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Gibson County Railroad Authority

Notes to the Financial Statements

June 30, 2015

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 Authority 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

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.

Gibson County Railroad Authority
Notes to the Financial Statements
June 30, 2015

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. Authorization to assign amounts to a specific purpose is given to the Board.

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.

When expenditures are incurred for purposes for which amounts in committed, assigned, and unassigned fund balance classifications could be used, the Authority’s Board of Directors will determine the best use of funds based on the specific facts and circumstances at that time.

The Authority reports the following major governmental funds:

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

Other Fund Types

The Authority has no other fund types.

Cash and Cash Equivalents

The Authority 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 Authority has no capital assets.

Long-term Debt

The Authority has no long-term debt.

Compensated Absences

The Authority has no employees.

Budgets

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

Gibson County Railroad Authority
Notes to the Financial Statements
June 30, 2015

Use of Restricted Resources

The Authority has no restricted resources.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net 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 presently has no items that qualify for reporting in this category.

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 presently has no items that qualify for reporting in this category.

Impact of Recently Issued Accounting Pronouncements

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012. This statement resulted in the classification of unavailable property taxes to deferred inflows as compared to previously being presented as a liability.

Note 2 – Cash and Investments

The Authority 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 Authority's interest-bearing deposits was \$743,641. All funds of the Authority on deposit at financial institutions have federal depository insurance and collateral held by the Authority's agent in the Authority's name.

Note 3 - Risk Management

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

Gibson County Railroad Authority
Notes to the Financial Statements
June 30, 2015

Note 4 – Notes Receivable

The Authority 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 Authority 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 Authority has the authority to invest in property that is suitable for industry using the rail service.

Gibson County Railroad Authority
Schedule of Expenditures of Federal, State, and Local Awards
For the Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor	CFDA Number	Contract Number	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
<u>Federal Awards</u>						
<i>None</i>						
<u>State Financial Assistance</u>						
TN Dept of Transportation		Z-13-RR1023-00	-	5,017	5,017	-
Sub-Total				5,017	5,017	
TOTAL FEDERAL & STATE AWARDS			-	5,017	5,017	-

**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, 2015 which collectively comprise the Gibson County Railroad Authority's basic financial statements and have issued our report thereon dated January 27, 2016. 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 January 27, 2016

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
February 5, 2015

Gibson County Railroad Authority
Schedule of Findings & Responses
June 30, 2015

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

2011-001 – 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.

2011-002 – 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, 2015

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.

2011-003 – 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.

Gibson County Railroad Authority
Schedule of Disposition of Prior Year Findings
June 30, 2015

Finding Number	Finding Title	Status
2011-001	Management Oversight	Uncorrected
2011-002	Bank Reconciliation	Uncorrected
2011-003	No Budget	Uncorrected