

**CHEATHAM COUNTY
RAIL AUTHORITY**

JUNE 30, 2011

**TAMARA L. BECKMAN
CERTIFIED PUBLIC ACCOUNTANT**

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RAIL AUTHORITY
JUNE 30, 2011**

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INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying statement of net assets of the Cheatham County Rail Authority, a jointly governed organization with Metropolitan Davidson County and Cheatham County, TN, as of June 30, 2011, and the related statement of revenues, expenses, and changes in fund net assets and cash flows for the year then ended. These financial statements are the responsibility of the Cheatham County Rail Authority's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my 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 as of June 30, 2011, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

GASB Statement No. 34 provides guidance on Management's Discussion and Analysis, which is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board; however, management has chosen to exclude this information.

In accordance with *Government Auditing Standards* I have also issued my report dated February 12, 2012 on my consideration of the 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, but 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* and should be considered in conjunction with this report in considering the results of my audit.

Tamara L. Beckman, CPA

February 12, 2012
Cookeville, Tennessee

CHEATHAM COUNTY RAIL AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 87,432.38	
Grants Receivable	17,085.49	
Accounts Receivable	<u>21,618.05</u>	
<u>Total Current Assets</u>		\$ 126,135.92

Non-Current Assets

Land	260,212.00	
Track Rehabilitation	1,920,009.59	
Bridge Rehabilitation	3,274,607.76	
Less: Accumulated Depreciation	<u>(3,098,909.70)</u>	
<u>Total Non-Current Assets</u>		<u>2,355,919.65</u>

Total Assets **\$ 2,482,055.57**

LIABILITIES

Current Liabilities

Accounts Payable	17,085.49
Interest Payable - FRA Note	3,543.71
FRA Note Payable - current portion	<u>102,249.07</u>

Total Current Liabilities 122,878.27

Long-term Debt - FRA Note Payable 1,556,023.60

Total Liabilities **1,678,901.87**

NET ASSETS

Invested in Capital Assets, Net of Related Debt	680,561.49
Unrestricted Net Assets	<u>122,592.21</u>

Total Net Assets **\$ 803,153.70**

The accompanying notes are in integral part of the financial statements

CHEATHAM COUNTY RAIL AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
JUNE 30, 2011

<u>Operating Revenues</u>		
Rail Income	\$ 42,306.77	
Lease Income	19,584.04	
Total Operating Revenues		\$ 61,890.81
 <u>Operating Expense</u>		
Accounting	5,400.00	
Legal	16,651.79	
Dues & Fees	2,562.00	
Depreciation Expense	<u>59,238.18</u>	
Total Operating Expenses		<u>83,851.97</u>
Net Operating Income		\$ (21,961.16)
 <u>Non-operating Revenue and Expense</u>		
Interest Expense	(89,205.62)	
Grant Income	416,267.28	
Total Non-operating Revenue and Expense		<u>327,061.66</u>
 Increase in Net Assets		 305,100.50
Total Net Assets - June 30, 2010		498,053.20
Total Net Assets - June 30, 2011		<u>\$ 803,153.70</u>

The Accompanying notes are in integral part of the financial statements

CHEATHAM COUNTY RAIL AUTHORITY
STATEMENT OF CASH FLOW
JUNE 30, 2011

Cash Flows From Operating Activities

Cash Received from Operations	\$ 89,847.98	
Cash Payments for Goods and Services	<u>(71,270.21)</u>	
Net Cash Provided by Operating Activities		\$ 18,577.77

Cash Flows from Capital & Related Financing Activities

Track & Bridge Rehabilitation Construction	\$ (209,756.74)	
Principal paid on Notes Payable	(97,212.32)	
Interest paid on Notes Payable	<u>(89,413.36)</u>	
Net Cash Used by Capital & Related Financing Activities		#####

Cash Flows from Non-Capital Financing Activities

Grant income received	<u>416,267.28</u>	
Net Cash Provided by Non-Capital Financing Activities		<u>416,267.28</u>

Net Increase in Cash and Cash Equivalents		38,462.63
Cash and Cash Equivalent at 6-30-10		<u>48,969.75</u>
Cash and Cash Equivalent at 6-30-11		<u>\$ 87,432.38</u>

Reconciliation of Net Operating Income (Loss) to Net Cash

<u>Used by Operating Activities</u>		
Net Operating Income (Loss)	\$ (21,961.16)	
Depreciation	59,238.18	
Decrease in Accounts & Grants Receivable	32,853.18	
Decrease in Deferred Revenue	(4,896.01)	
Decrease in Accounts Payable	<u>(46,656.42)</u>	
<u>Net Cash Provided by Operating Activities</u>		<u>\$ 18,577.77</u>

NonCash Items

Bridge and track construction purchased included in Accounts Payable		<u>\$ 17,085.49</u>
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The Accompanying notes are in integral part of the financial statements

**CHEATHAM COUNTY
RAIL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

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. The By-Laws do not give the board of directors' permission to borrow money. In addition, 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. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board. As allowed in Section P80 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the Board has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, issued after November 30, 1989.

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 assets are segregated into three components: invested in capital assets, net of related debt; restricted; and unrestricted. The Authority's operating statement presents increases (revenues) and decreases (expenses) in net assets.

C. Property, Plant & Equipment and Depreciation

Fixed assets are recorded at cost. Construction period interest is capitalized. The Authority capitalizes any fixed assets with a cost over \$500 that have an estimated life of more than one year.

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 income to be operating and grants and lease income 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 \$100,000 by the Federal Deposit Insurance Corporation (FDIC) or Savings Association Insurance Fund (SAIF).

The following is a schedule of bank accounts at June 30, 2011:

Checking – Community B & T \$ 87,432.38

At June 30, 2011, the carrying amount of the Cheatham County Rail Authority’s cash deposits was \$ 87,432.38. 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 fixed assets and accumulated depreciation is as follows:

Asset Not Capitalized

	Balance			Balance
<u>Assets</u>	<u>6-30-10</u>	<u>Additions</u>	<u>Disposals</u>	<u>6-30-11</u>
Land	\$ 260,212.00	\$ --	\$ --	\$ 260,212.00

Assets Capitalized

Rail Line Rehabilitation	1,746,421.39	173,588.20	--	1,920,009.59
Bridge Rehabilitation	<u>3,221,353.73</u>	<u>53,254.03</u>	<u>--</u>	<u>3,274,607.76</u>
	<u>4,967,775.12</u>	<u>226,842.23</u>	<u>--</u>	<u>5,194,617.35</u>
Total Capital Assets	<u>\$5,227,987.12</u>	<u>\$226,842.23</u>	<u>\$ --</u>	<u>\$5,454,829.35</u>

Accumulated Depreciation

	Balance			Balance
	<u>06-30-10</u>	<u>Additions</u>	<u>Disposals</u>	<u>06-30-11</u>
Rail Line Rehab	\$ 834,498.48	\$26,741.19	\$ --	\$ 861,239.67
Bridge Rehab	<u>2,205,173.04</u>	<u>32,496.99</u>	<u>--</u>	<u>2,237,670.03</u>
Total Accum. Depr.	<u>\$3,039,671.52</u>	<u>\$59,238.18</u>	<u>\$ --</u>	<u>\$3,098,909.70</u>

Note 5 – Notes Payable

On April 21, 2003, the Authority and the Operator 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. Amortizations of the FRA loans are presented below:

a) Schedule of Changes in Long-Term Notes Payable

Interest payable for this loan at June 30, 2011 was \$3,543.71 and interest expense was \$89,205.62.

<u>Balance</u> <u>June 30, 2010</u>	<u>New</u> <u>Issue</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2011</u>
<u>\$1,755,484.99</u>	<u>\$ -0-</u>	<u>\$ (97,212.32)</u>	<u>\$1,658,272.67</u>

b) Amortization Schedule

For Fiscal Year Ended June 30,

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	102,249.07	84,376.61	186,625.68
2013	107,901.83	78,723.85	186,625.68
2014	113,509.58	73,116.10	186,625.68
2015	119,528.17	67,097.51	186,625.68
2016	125,781.00	60,844.68	186,625.68
2017-2021	736,862.15	196,266.25	933,128.40
2022-2023	<u>352,441.86</u>	<u>20,809.50</u>	<u>373,251.36</u>
Total	<u>\$1,658,273.66</u>	<u>\$ 581,234.50</u>	<u>\$2,239,508.16</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 – Operating Leases

In November, 1999, the Authority entered into a five-year agreement with Omega Rail Management (Omega) for right of way lease management and related products. The Authority pays a management fee based on varying percentages of the revenue collected by Omega.

Note 8 – Invested in Capital Assets, Net of Related Debt

The calculation for Net Assets Invested in Capital Assets, Net of Related Debt as stated on the Statement of Net Assets is as follows:

Total Non-Current Assets	\$2,355,919.65
Accounts Payable	(17,085.49)
FRA Note Payable – current portion	(102,249.07)
Long Term Debt – FRA Note Payable	<u>(1,556,023.60)</u>
Net Assets Invested in Capital Assets, Net of Related Debt	<u>\$ 680,561.49</u>

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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 the financial statements of the Cheatham County Rail Authority, a jointly governed organization between Cheatham County and Metropolitan Davidson County, Tennessee, as of and for the year ended June 30, 2011, and have issued my report thereon dated February 12, 2012. 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.

Internal Control over Financial Reporting

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

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses, as defined above. I did not identify any

deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

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*.

This report is intended solely for the information of the management of Cheatham County Rail Authority and the Comptroller of the Treasury State of Tennessee and federal and state awarding agencies and is not intended to be used and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Tamara L. Beckman, CPA

February 12, 2012
Cookeville, Tennessee