

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

BEDFORD RAILROAD AUTHORITY

Shelbyville, Tennessee
June 30, 2012

WINNETT
Associates, PLLC

Certified Public Accountants and Consultants

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MANAGEMENT'S DISCUSSION AND ANALYSIS

BEDFORD RAILROAD AUTHORITY

Year ended June 30, 2012

As management of Bedford Railroad Authority ("Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2012.

Financial Highlights

- The assets of the Authority exceeded the liabilities at the close of business on June 30, 2012, by \$3,689,781 (net assets). Of this amount, \$59,467 (unrestricted net assets) may be used to meet the Authority's ongoing obligations to citizens and creditors.
- During the fiscal year ended June 30, 2012, the Authority's total net assets increased by \$53,398 primarily as a result of bridge construction, less depreciation recorded during this fiscal year.
- At the end of the fiscal year ended June 30, 2012, unassigned fund balances totaled \$59,289, or 13.4% of total fund expenditures.
- The only debt that the Authority had at June 30, 2012 was \$42,673 due to the engineering firm that represents the Authority with TDOT and the company performing track rehabilitation work, milepost 0.0 to 8.0. That amount is offset by the same dollar amount due to the Authority from the State of Tennessee.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of activities* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Authority that are principally supported by contracts with TDOT and subcontracts with railroad operators and vendors that are intended to recover all or a significant portion of their costs through a rebill and pass-through system of reimbursement for the Authority, operators and vendors. TDOT does provide an administrative fee on each new construction contract. The Authority has completed contracts for construction and rehabilitation work on the rail line in 2011-2012. This contract work will provide the Authority with a minimum of \$8,743 in administrative fee revenue. This will help ease the cash flow crunch that we were faced with during the prior fiscal years, and should allow us not to have to draw upon the emergency funds in the certificate of deposit during the next several months. These fees provide funds to the Authority for the payment of actual overhead expenses. The Authority is in the business of oversight of the operation of the short-line railroad between Shelbyville, Tennessee and the CSX Railroad main-line in Wartrace, Tennessee, a distance of approximately eight miles.

Fund financial statements. A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local government units, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the Authority are in the category of *governmental funds*.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *government activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$3,689,781 at the close of the fiscal year ended June 30, 2012. A portion of the Authority's net assets (1.45%) rests in a certificate of deposit at a local financial institution. The funds in this certificate of deposit are held by the Authority for possible emergencies which may arise in the future, such as the need for matching funds for railroad projects. The cash balance in the Authority's checking account (.14% of net assets) is used for payment of the month-to-month operating expenses and is replenished by interest earned on the certificate of deposit and the receipt of administrative fees on contracts with the State of Tennessee-Department of Transportation. It is noted here (and in the following paragraph under "capital assets") that the Authority's net assets include land and bridges with a depreciated cost of \$3,630,314.

Capital Assets

Capital assets as shown on the Statement of Net Assets (\$3,630,314) consists of the land upon which the eight-mile short-line railroad track is located as well as a bridge constructed during 2005, a bridge constructed in 2007-2008, and a bridge placed into service in April 2012.

Contracts

The amount not yet drawn (at June 30, 2012) upon the twenty contracts with TDOT for engineering, construction, rehabilitation, repair and improvement of the Authority's rail line is \$160,531. As this work is completed and billed to TDOT, the Authority will receive payment and immediately pay 100% of the amount received to the various vendors that provide these types of services on the railroad. The completion of these twenty contracts will be revenue/expense neutral to the Authority with the exception of the \$8,743 administrative fee revenue that the Authority will retain.

Financial statements required as part of this document

Section 11b of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* states that the government must submit condensed financial information derived from government-wide financial statements, comparing the current year to the prior year. The Authority's condensed statements to meet this requirement are as follows:

Condensed Statement of Net Assets

| | <u>June 30, 12</u> | <u>June 30, 11</u> |
|----------------------------|---------------------|---------------------|
| Current and other assets | \$ 102,140 | \$ 85,662 |
| Capital assets | <u>3,630,314</u> | <u>3,580,258</u> |
| Total assets | 3,732,454 | 3,665,920 |
| Long-term liabilities | - | - |
| Other liabilities | <u>42,673</u> | <u>29,537</u> |
| Total liabilities | 42,673 | 29,537 |
| Net assets: | | |
| Invested in capital assets | 3,630,314 | 3,580,258 |
| Restricted | - | - |
| Unrestricted | <u>59,467</u> | <u>56,125</u> |
| Total net assets | <u>\$ 3,689,781</u> | <u>\$ 3,636,383</u> |

Condensed Statement of Activities

| | <u>June 30, 12</u> | <u>June 30, 11</u> |
|--------------------------|---------------------|---------------------|
| Revenues: | | |
| Program revenues: | | |
| Operating grants | \$ 356,046 | \$ 61,132 |
| Capital grants | 86,939 | - |
| General revenues: | | |
| Interest | 587 | 863 |
| Sale of materials | - | 9,059 |
| Miscellaneous | <u> </u> | <u>4</u> |
| Total revenues | 444,327 | 71,058 |
| Expenses: | | |
| Railroad rehabilitation | 346,669 | 35,074 |
| Other general government | <u>44,260</u> | <u>44,461</u> |
| Total expenses | <u>390,929</u> | <u>79,535</u> |
| Change in net assets | 53,398 | (8,477) |
| Beginning net assets | <u>3,636,383</u> | <u>3,644,860</u> |
| Ending net assets | <u>\$ 3,689,781</u> | <u>\$ 3,636,383</u> |

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

C. Bailey Little, Jr., Treasurer
Bedford Railroad Authority
366 Riverbend Road
Shelbyville, TN 37160

INDEPENDENT AUDITORS' REPORT

Board of Directors
Bedford Railroad Authority
Shelbyville, Tennessee

We have audited the accompanying financial statements of the governmental activities and each major fund of Bedford Railroad Authority as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Bedford Railroad Authority's management. 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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 each major fund of Bedford Railroad Authority as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2013, on our consideration of Bedford 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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 historical context. We have applied certain limited procedures to the required supplementary information in accordance with

auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Winnett Associates, LLC

January 3, 2013

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET

BEDFORD RAILROAD AUTHORITY

June 30, 2012

| | General Fund | Adjustments Note H | Statement of Net Assets |
|-------------------------------------|-------------------|-----------------------|----------------------------|
| ASSETS | | | |
| Cash in bank | \$ 5,355 | \$ - | \$ 5,355 |
| Certificate of deposit | 53,831 | - | 53,831 |
| Accounts receivable | - | - | - |
| State grants receivable | 42,673 | - | 42,673 |
| Interest receivable | 104 | - | 104 |
| Prepaid expenses | 177 | - | 177 |
| Capital assets | - | 3,630,314 | 3,630,314 |
| TOTAL ASSETS | <u>\$ 102,140</u> | <u>3,630,314</u> | <u>3,732,454</u> |
| LIABILITIES | | | |
| Accounts payable - vendors | \$ 42,673 | - | 42,673 |
| TOTAL LIABILITIES | <u>42,673</u> | <u>-</u> | <u>42,673</u> |
| FUND BALANCES/ NET ASSETS | | | |
| Fund balances: | | | |
| Nonspendable - prepaid insurance | 178 | 178 | - |
| Unassigned | 59,289 | 59,289 | - |
| TOTAL FUND BALANCES | <u>59,467</u> | <u>59,467</u> | <u>-</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 102,140</u> | | |
| Net assets: | | | |
| Invested in capital assets | | 3,630,314 | 3,630,314 |
| Unrestricted | | 59,467 | 59,467 |
| TOTAL NET ASSETS | | <u>\$ 3,689,781</u> | <u>\$ 3,689,781</u> |

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

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BEDFORD RAILROAD AUTHORITY**

Year ended June 30, 2012

| | General Fund | Adjustments Note I | Statement of Activities |
|--------------------------------------|------------------|-----------------------|----------------------------|
| Expenditures/expenses: | | | |
| Railroad - operations | \$ 354,046 | \$ 36,883 | \$ 390,929 |
| Capital outlay | 86,939 | (86,939) | - |
| Total expenditures/expenses | <u>440,985</u> | <u>(50,056)</u> | <u>390,929</u> |
| Program revenues: | | | |
| Operating grants | 356,801 | - | 356,801 |
| Capital grants | 86,939 | - | 86,939 |
| Total program revenues | <u>443,740</u> | <u>-</u> | <u>443,740</u> |
| Net program expense | | | <u>52,811</u> |
| General revenues: | | | |
| Investment earnings | 587 | - | 587 |
| Sale of materials | - | - | - |
| Miscellaneous | - | - | - |
| Total general revenues | <u>587</u> | <u>-</u> | <u>587</u> |
| Excess of revenues over expenditures | 3,342 | (3,342) | |
| Change in net assets | | 53,398 | 53,398 |
| Fund balance/ net assets: | | | |
| Beginning of the year | 56,125 | 3,580,258 | 3,636,383 |
| End of the year | <u>\$ 59,467</u> | <u>\$ 3,630,314</u> | <u>\$ 3,689,781</u> |

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

NOTES TO FINANCIAL STATEMENTS
BEDFORD RAILROAD AUTHORITY

June 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Bedford Railroad Authority (the Authority) was created by Bedford County and the cities of Shelbyville and Wartrace, Tennessee, as of November 22, 1984, pursuant to TCA 7-56-201, et seq., to provide for the continuation of rail service on a section of existing rail spur line located within Bedford County between the cities of Shelbyville and Wartrace.

The Authority is governed by a board of directors consisting of the County Mayor, the Mayor of each city, one member selected by the governing bodies of each county and city who are members of the Authority, the City Manager of Shelbyville and the Executive Director of Shelbyville and Bedford County Chamber of Commerce, Inc.

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

(1) Government-wide and fund financial statements

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available and expenditures generally are recorded when a liability is incurred, as under accrual accounting. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

NOTES TO FINANCIAL STATEMENTS (Continued)

BEDFORD RAILROAD AUTHORITY

June 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

In the government-wide financial statements, equity is classified as net assets and displayed in three components:

Invested in capital assets - This component of net assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of debt is included in the same net assets component as the unspent proceeds.

Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributions, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets."

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed. Also, 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.

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.

NOTES TO FINANCIAL STATEMENTS (Continued)

BEDFORD RAILROAD AUTHORITY

June 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

(3) Accounts receivable

All significant amounts are due from the State of Tennessee Department of Transportation; therefore, no provision for uncollectible accounts at June 30, 2012, is deemed necessary.

(4) Budgetary information

No budget is adopted by the Authority because there is no legal requirement to do so.

(5) Capital assets

Capital assets, which include property, plant, equipment and infrastructure assets, are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Depreciation is calculated over the estimated useful lives of the individual assets on a straight-line basis.

The Authority has elected not to report major general infrastructure assets retroactively.

NOTE B - CONTRACTS

Walking Horse and Eastern Railroad Company, Inc.

As of July 1, 1985, the Walking Horse and Eastern Railroad Company, Inc. (WHERC, Inc.) contracted with the Authority to operate and provide rail service over, and to rehabilitate and maintain, the Shelbyville-Wartrace Branch.

WHERC, Inc. was not required to make annual payments for the first three years of operation, but an annual payment of \$3,000 is to be made to the Authority for the fourth and all subsequent years. In addition, WHERC, Inc. is to pay to the Authority, by April 1 following the close of each calendar year after the third year of operation, an amount equal to twenty percent of the net retained revenue of WHERC, Inc. if such net revenue exceeds \$25,000. Due to the loss of significant customers of the railroad, these requirements have been temporarily waived by the Authority. This contract expired in 2000. The Authority has voted to operate under the terms of the 1985 contract, including the requirements temporarily waived, until a new contract is prepared and approved which shall also include a non-revenue sharing clause. This contract is currently being negotiated.

NOTES TO FINANCIAL STATEMENTS (Continued)

BEDFORD RAILROAD AUTHORITY

June 30, 2012

NOTE C - GRANTS

Tennessee Department of Transportation Grants

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

| <u>Description</u> | <u>Amount Available</u> |
|--------------------------------------|-------------------------|
| Contract Z08020867 | \$ 10 |
| Contract Z08020885 | 95 |
| Contract Z08020926 | 14 |
| Contract Z08020947 | 1,000 |
| Contract Z09213052 | 3,004 |
| Contract Z09213034 | 19 |
| Contract Z11RE200400 | 180 |
| Contract Z11RE200500 | 339 |
| Contract Z11RE200600 | 1,280 |
| Contract Z11RE202400 | 5,981 |
| Contract Z11RE204300 | 10,027 |
| Contract Z11RR101300 | 13,717 |
| Contract 02950-3564-04 | 1,698 |
| Contract Z11RR101700 | 3 |
| Contract GG113348300 | 84 |
| Contract Z12RE103900 | 7,950 |
| Contract Z12RE100300 | 6,503 |
| Contract Z12RE102100 | 12,573 |
| Contract GG113435100 | 2,467 |
| Contract GG113348300 | <u>93,587</u> |
| AMOUNT AVAILABLE AS OF JUNE 30, 2012 | <u>\$ 160,531</u> |

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

Should the Tennessee Department of Transportation cease funding the rehabilitation, repair and improvement of the rail line, the Authority's ability to continue operations would be threatened.

NOTE D - CONTINGENCY

The capital contributions made by various businesses and organizations were used as "up front" money to help purchase the Shelbyville-Wartrace Branch line. If the Authority should sell all or part of the Shelbyville-Wartrace Branch, the contributors are to receive a pro rata portion of the proceeds.

NOTES TO FINANCIAL STATEMENTS (Continued)

BEDFORD RAILROAD AUTHORITY

June 30, 2012

NOTE E - CASH

The Authority is authorized by law to invest idle funds in obligations of the U.S. Government or its agencies, repurchase agreements, secured certificates of deposit and other evidences of deposit at state and federal chartered banks and savings and loan associations. The Authority may also choose to invest idle funds in the pooled investment fund established by Title 9, Chapter 4, Part 7, *Tennessee Code Annotated*. The Authority has chosen to invest all idle funds in certificates of deposits which along with its checking account balance are entirely covered by federal depository insurance.

NOTE F - EXEMPTION FROM INCOME TAX

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

NOTE G - RISK MANAGEMENT

Usual business risks, including general liability, property and casualty, are covered by commercial insurance policies purchased by the operator of the rail line, WHERC, Inc., with the Authority as an additional named insured. Bedford Railroad Authority paid no settlements that were in excess of insurance coverage provided by the operator of the railroad in any of the prior three fiscal years.

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund balance sheet. Historical cost of capital assets net of depreciation at June 30, 2012, totaled \$3,630,314.

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

Governmental funds report capital outlays as expenditures while governmental activities report the cost of capital outlays as an asset and report depreciation expense to allocate those expenditures over the life of the assets. Capital assets purchased totaled \$86,939 and depreciation expense totaled \$36,883.

NOTES TO FINANCIAL STATEMENTS (Continued)

BEDFORD RAILROAD AUTHORITY

June 30, 2012

NOTE J - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|-------------------|-------------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 7,421 | \$ - | \$ - | \$ 7,421 |
| Construction in progress | 26,058 | 86,939 | 112,997 | - |
| Total capital assets, not being depreciated | <u>33,479</u> | <u>86,939</u> | <u>112,997</u> | <u>7,421</u> |
| Capital assets, being depreciated: | | | | |
| Infrastructure | <u>3,660,036</u> | <u>112,997</u> | <u>-</u> | <u>3,773,033</u> |
| Total capital assets being depreciated | <u>3,660,035</u> | <u>112,997</u> | <u>-</u> | <u>3,773,033</u> |
| Less accumulated depreciation for: | | | | |
| Infrastructure | <u>113,257</u> | <u>36,883</u> | <u>-</u> | <u>150,140</u> |
| Total accumulated depreciation | <u>113,257</u> | <u>36,883</u> | <u>-</u> | <u>150,140</u> |
| Total capital assets, being depreciated, net | <u>3,546,779</u> | <u>76,114</u> | <u>-</u> | <u>3,622,893</u> |
| Governmental activities capital assets, net | <u>\$3,580,258</u> | <u>\$ 163,053</u> | <u>\$ 112,997</u> | <u>\$3,630,314</u> |

SUPPLEMENTARY INFORMATION

ACCOUNTANTS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
Bedford Railroad Authority
Shelbyville, Tennessee

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bedford Railroad Authority's financial statements as a whole. The information presented hereinafter is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenditures of federal awards and state financial assistance is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such 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 schedule of expenditures of federal awards and state financial assistance is fairly stated in all material respects in relation to the financial statements as a whole. The organizational data has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Winnett Associates, PLLC

January 3, 2013

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
BEDFORD RAILROAD AUTHORITY**

Year ended June 30, 2012

| Grantor Agency | CFDA Number | Contract Number | Beginning Accrued | Cash Receipts | Expenditures | Ending Accrued |
|-----------------------------------|----------------|--------------------|----------------------|------------------|--------------|-------------------|
| <u>FEDERAL AWARDS</u> | | | | | | |
| None | | | | | | |
| <u>STATE FINANCIAL ASSISTANCE</u> | | | | | | |
| TN Dept. of Transportation | N/A | STP-437(1) | \$ - | 215 | 215 | - |
| TN Dept. of Transportation | N/A | Z11RE200400 | - | 1,222 | 1,222 | - |
| TN Dept. of Transportation | N/A | Z11RE200600 | - | 5,223 | 5,223 | - |
| TN Dept. of Transportation | N/A | Z11RE202400 | - | - | 4,032 | 4,032 |
| TN Dept. of Transportation | N/A | Z12RR101300 | - | 193,535 | 232,179 | 38,644 |
| TN Dept. of Transportation | N/A | Z11RR101700 | - | 91,199 | 91,199 | - |
| TN Dept. of Transportation | N/A | GG113348300 | - | 93,503 | 93,503 | - |
| TN Dept. of Transportation | N/A | GG113435100 | - | 10,298 | 10,298 | - |
| TN Dept. of Transportation | N/A | GG113348300 | - | 5,872 | 5,872 | - |
| TOTAL STATE FINANCIAL ASSISTANCE | | | \$ - | \$ 401,067 | \$ 443,743 | \$ 42,676 |

Note 1: This Schedule of Expenditures of Federal Awards and State Financial Assistance summarizes the expenditures of Bedford Railroad Authority under programs of the federal and state governments for the year ended June 30, 2012. The schedule is presented using the modified accrual basis of accounting.

See accountants' report on other financial information.

ORGANIZATIONAL DATA
BEDFORD RAILROAD AUTHORITY

June 30, 2012

CREATED

November 22, 1984, pursuant to Tennessee Code Annotated 7-56-201, et seq.

PURPOSE OF AUTHORITY

To provide for the continuation of rail service on a section of existing rail and spur lines located within Bedford County between the cities of Shelbyville and Wartrace.

OFFICERS

| | |
|-----------------------|---------------------|
| Joe Tillett | Chairman |
| Wallace Cartwright | Vice-Chairman |
| L. Wayne Bomar | Secretary/ Attorney |
| C. Bailey Little, Jr. | Treasurer |

DIRECTORS

Wallace Cartwright
Sam Meek
Walter Wood
Patsy Throneberry
Eugene Ray
Ron Stacy
Joe Tillett
Jay Johnson

See accountants' report on other financial information.

**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**

Board of Directors
Bedford Railroad Authority
Shelbyville, Tennessee

We have audited the financial statements of the governmental activities and each major fund of Bedford Railroad Authority as of and for the year ended June 30, 2012, which collectively comprise Bedford Railroad Authority's basic financial statements and have issued our report thereon dated January 3, 2013. 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

Management of Bedford Railroad Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Bedford 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 on the effectiveness of Bedford Railroad Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Bedford Railroad Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in Bedford Railroad Authority's internal control over financial reporting to be material weaknesses:

Condition, Criteria, Cause and Effect: The Authority does not employ anyone trained to prepare financial statements for external reporting in accordance with generally accepted accounting principles for governmental entities.

Recommendation: Management of the Authority should determine whether it would be financially feasible to train or hire someone to be able to prepare financial statements in accordance with generally accepted accounting principles.

Management Response: At this time we do not believe the benefit of addressing this control deficiency would exceed the cost.

Condition, Criteria, Cause and Effect: There is a lack of adequate segregation of duties due to the fact that the treasurer performs all key functions surrounding cash receipts and disbursements.

Recommendation: We acknowledge that the limited number of personnel precludes ideal segregation of duties. However, we recommend that, whenever possible, responsibilities be reassigned to provide for adequate segregation of duties. To provide for adequate segregation of duties we would suggest someone else prepare or at least review bank reconciliations, including support such as bank statements, as well as someone else be responsible for corresponding with the State regarding grant revenues.

Management Response: We feel the cost to fully correct this internal control deficiency would exceed the benefits. However, we will, whenever possible, separate duties.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bedford 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*.

Bedford Railroad Authority's responses to the findings identified in our audit are described above. We did not audit Bedford Railroad Authority's response and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the board of directors, others within the organization, and government oversight organizations and is not intended to be and should not be used by anyone other than these specified parties.

Winnett Associates, LLC

January 3, 2013