

**CHEATHAM COUNTY
RAIL AUTHORITY**

JUNE 30, 2013

**TAMARA L. BECKMAN
CERTIFIED PUBLIC ACCOUNTANT**

**CHEATHAM COUNTY
RAIL AUTHORITY
JUNE 30, 2013**

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TAMARA L. BECKMAN
CERTIFIED PUBLIC ACCOUNTANT

6 SOUTH MADISON AVENUE
COOKEVILLE, TN 38501
Office (931) 526-5489
Fax (931) 526-9064

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

I have audited the accompanying financial statements of Cheatham County Rail Authority, a jointly governed organization with Metropolitan Davidson County and Cheatham County, TN as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Cheatham County Rail Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also

includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Cheatham County Rail Authority, a component unit of Cheatham County, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historic context.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. The auditor's opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

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

The schedule of officials is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic

financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of officials is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated December 16, 2013 on my consideration of Cheatham County Rail Authority's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cheatham County Rail Authority's internal control over financial reporting and compliance.

Tamara L. Beckman, CPA

December 16, 2013
Cookeville, Tennessee

CHEATHAM COUNTY RAIL AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2013

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 162,299.06	
Grants Receivable	229,094.97	
Accounts Receivable	<u>8,866.56</u>	
<u>Total Current Assets</u>		\$ 400,260.59

Capital Assets

Land	260,212.00	
Track Rehabilitation	2,186,916.48	
Bridge Rehabilitation	3,682,229.60	
Less: Accumulated Depreciation	<u>(3,239,280.12)</u>	
<u>Total Capital Assets</u>		<u>2,890,077.96</u>

<u>Total Assets</u>		\$ 3,290,338.55
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LIABILITIES

Current Liabilities

Accounts Payable	600.00
Construction Payable	227,228.71
Deferred Lease Payment	-
Interest Payable - FRA Note	3,094.62
FRA Note Payable - current portion	<u>113,509.58</u>

<u>Total Current Liabilities</u>	344,432.91
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Long-term Debt - FRA Note Payable	<u>1,334,612.19</u>
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<u>Total Liabilities</u>	<u>1,679,045.10</u>
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NET POSITION

Net Investment in Capital Assets	1,214,727.48
Unrestricted Net Position	<u>396,565.97</u>

<u>Total Net Position</u>	<u>\$ 1,611,293.45</u>
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The accompanying notes are in integral part of the financial statements

CHEATHAM COUNTY RAIL AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

<u>Operating Revenues</u>		
Rail Income	\$ 30,100.39	
Lease Income	<u>20,756.12</u>	
Total Operating Revenues		\$ 50,856.51
 <u>Operating Expense</u>		
Accounting	2,400.00	
Audit	3,250.00	
Advertising	73.68	
Legal	22,919.59	
Dues & Fees	3,977.00	
Supplies	19.00	
Depreciation Expense	<u>74,355.84</u>	
Total Operating Expenses		<u>106,995.11</u>
Net Operating Income		\$ (56,138.60)
 <u>Non-operating Revenue and Expense</u>		
Interest Expense	(78,502.35)	
Grant & Reimbursement Income	<u>550,910.70</u>	
Total Non-operating Revenue and Expense		<u>472,408.35</u>
 Increase in Net Position		 416,269.75
Total Net Position - June 30, 2012		<u>1,195,023.70</u>
Total Net Position - June 30, 2013		<u><u>\$ 1,611,293.45</u></u>

The Accompanying notes are in integral part of the financial statements

CHEATHAM COUNTY RAIL AUTHORITY
STATEMENT OF CASH FLOW
JUNE 30, 2013

Cash Flows From Operating Activities

Cash Received from Operations	\$ 51,507.96	
Cash Payments for Goods and Services	<u>(40,679.31)</u>	
Net Cash Provided by Operating Activities		\$ 10,828.65

Cash Flows from Capital & Related Financing Activities

Track & Bridge Rehabilitation Construction	\$ (132,030.35)	
Principal paid on Notes Payable	(107,901.83)	
Interest paid on Notes Payable	<u>(78,723.85)</u>	
Net Cash Used by Capital & Related Financing Activities		(318,656.03)

Cash Flows from Non-Capital Financing Activities

Grant income received	<u>322,835.07</u>	
Net Cash Provided by Non-Capital Financing Activities		<u>322,835.07</u>

Net Increase in Cash and Cash Equivalents		15,007.69
Cash and Cash Equivalent at 6-30-12		<u>147,291.37</u>
Cash and Cash Equivalent at 6-30-13		<u>\$ 162,299.06</u>

Reconciliation of Net Operating Income (Loss) to Net Cash

<u>Used by Operating Activities</u>		
Net Operating Income (Loss)	\$ (56,138.60)	
Depreciation	74,355.84	
Decrease in Accounts Receivable	651.45	
Decrease in Deferred Revenue	(5,189.03)	
Decrease in Accounts Payable	<u>(2,851.01)</u>	
<u>Net Cash Provided by Operating Activities</u>		<u>\$ 10,828.65</u>

NonCash Items

Bridge and track construction purchased included in Construction Payable		<u>\$ 227,228.71</u>
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**CHEATHAM COUNTY
RAIL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

Note 1 – General Statement and Summary of Significant Accounting Policies

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

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

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

A. Basis of Accounting

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

B. Measurement Focus

The operations of the Authority are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenditures. Measurement focus refers to what is being measured. The Authority uses the economic resources measurement focus. Accordingly, it reports all assets and liabilities on the statement of net assets. The reported net 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 and lease income to be operating and grants 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 \$250,000 by the Federal Deposit Insurance Corporation (FDIC) or Savings Association Insurance Fund (SAIF).

The following is a schedule of bank accounts at June 30, 2013:

Checking – Community B & T \$162,299.06

At June 30, 2013, the carrying amount of the Cheatham County Rail Authority’s cash deposits was \$162,299.06. 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>6-30-12</u>	<u>Additions</u>	<u>Disposals</u>	<u>6-30-13</u>
Land	\$ 260,212.00	\$ --	\$ --	\$ 260,212.00

Assets Capitalized

Rail Line Rehabilitation	2,179,688.56	7,227.92	--	2,186,916.48
Bridge Rehabilitation	3,330,198.46	352,031.14	--	3,682,229.60
	<u>5,509,887.02</u>	<u>359,259.06</u>	<u>--</u>	<u>5,869,146.08</u>
Total Capital Assets	<u>\$5,770,099.02</u>	<u>\$359,259.06</u>	<u>\$ --</u>	<u>\$6,129,358.08</u>

Accumulated Depreciation

	Balance			Balance
	<u>06-30-12</u>	<u>Additions</u>	<u>Disposals</u>	<u>06-30-13</u>
Rail Line Rehab	\$ 893,396.70	\$35,403.01	\$ --	\$ 928,799.71
Bridge Rehab	2,271,527.58	38,952.83	--	2,310,480.41
Total Accum. Depr.	<u>\$ 3,164,924.28</u>	<u>\$74,355.84</u>	<u>\$ --</u>	<u>\$3,239,280.12</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, 2013 was \$3,094.62 and interest expense was \$78,502.35.

<u>Balance</u> <u>June 30, 2012</u>	<u>New</u> <u>Issue</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2013</u>
<u>\$1,556,023.60</u>	<u>\$ -0-</u>	<u>\$ (107,901.83)</u>	<u>\$1,448,121.77</u>

b) Amortization Schedule

For Fiscal Year Ended June 30,

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	132,614.11	54,011.57	186,625.68
2018	139,566.71	47,058.97	186,625.68
2019	146,966.92	39,658.76	186,625.68
2020	154,715.00	31,910.68	186,625.68
2021	162,999.41	23,626.27	186,625.68
2022	171,605.63	15,020.05	186,625.68
2023	180,835.24	5,789.45	186,624.69
Total	<u>\$1,448,121.77</u>	<u>\$ 418,134.04</u>	<u>\$1,866,255.81</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 – Net Investment in Capital Assets

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

Total Capital Assets	\$2,890,077.96
Construction Payable	(227,228.71)
FRA Note Payable – current portion	(113,509.58)
Long Term Debt – FRA Note Payable	<u>(1,334,612.19)</u>
Net Assets Invested in Capital Assets, Net of Related Debt	<u>\$1,214,727.48</u>

Note 9 – Subsequent Events

The Authority has evaluated subsequent events through December 20, 2013, the date in which the financial statements were available to be issued.

Note 10 – Going Concern

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

Conditions and Events

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

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

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

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

**CHEATHAM COUNTY
RAIL AUTHORITY
SCHEDULE OF OFFICIALS
JUNE 30, 2013**

Mayor David McCullough, Chairman
100 Public Square, Suite 105
Ashland City, TN 37015
615-792-4316 (w)
615-456-0056 (c)

David.mccullough@cheathamcountyttn.gov

Rick Johnson
101 Court Street
PO Box 36
Ashland City, TN 37015
615-792-4211 ext 228 (w)
rjohnson@ashlandcity.gov

Jack McCanless, Jr.
1026 Jackson Felts Rd.
Joelton, TN 37080
615-746-2008 (h)
jackmccanless@aol.com

Clate Reed
2335 Highway 49W
Ashland City, TN 37015
615-792-6100 (h)
615-477-2152 (c)
clatedr@yahoo.com

Alwilda Binkley
106 S. Poole Street
Ashland City, TN 37015
615-792-7260 (h)

Ed Cole
6022 23rd Avenue S
Nashville, TN 37211
615-297-9918 (w)
615-252-8740 (c)
edcole@thetransitalliance.org

TAMARA L. BECKMAN
CERTIFIED PUBLIC ACCOUNTANT

6 SOUTH MADISON AVENUE
COOKEVILLE, TN 38501
Office (931) 526-5489
Fax (931) 526-9064

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

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

I have audited, in accordance with the auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Cheatham County Rail Authority, a jointly governed organization with Metropolitan Davidson County and Cheatham County, TN, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Cheatham County Rail Authority's basic financial statements, and have issued my report thereon dated December 18, 2013.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cheatham County Rail Authority's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Tamara L. Beckman, CPA

December 18, 2013
Cookeville, Tennessee