

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

BEDFORD RAILROAD AUTHORITY

Shelbyville, Tennessee
June 30, 2013

WINNETT
Associates, PLLC

Certified Public Accountants and Consultants

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MANAGEMENT'S DISCUSSION AND ANALYSIS

BEDFORD RAILROAD AUTHORITY

Year ended June 30, 2013

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, 2013.

Financial Highlights

- The assets of the Authority exceeded the liabilities at the close of business on June 30, 2013, by \$4,296,179 (net investment). Of this amount, \$59,759 (unrestricted net position) may be used to meet the Authority's ongoing obligations to citizens and creditors.
- During the fiscal year ended June 30, 2013, the Authority's total net position increased by \$606,398 primarily as a result of donated capital assets by the City of Shelbyville, less depreciation recorded during this fiscal year.
- At the end of the fiscal year ended June 30, 2013, unassigned fund balances totaled \$59,759, or 28% of total fund expenditures.
- The only debt that the Authority had at June 30, 2013 was \$117,527 due to the engineering firm that represents the Authority with TDOT and the company performing track rehabilitation work, milepost 0.5 to 7.1. 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 is 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 position* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 2012-2013. This contract work will provide the Authority with a minimum of \$5,029 in administrative fee revenue. This will help ease the cash flow crunch that we were faced with during 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 position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$4,296,179 at the close of the fiscal year ended June 30, 2013. A portion of the Authority's net position (1.25%) 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 (.13% of net position) 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 position include land, rail, and bridges with a depreciated cost of \$4,236,420.

Capital Assets

Capital assets as shown on the Statement of Net Position (\$4,236,420) 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, a bridge placed into service in April 2012, and a spur line placed into service in fiscal year 2013.

Contracts

The amount not yet drawn (at June 30, 2013) upon the fourteen contracts with TDOT for engineering, construction, rehabilitation, repair and improvement of the Authority's rail line is \$35,980. 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 fourteen contracts will be revenue/expense neutral to the Authority.

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 Position

| | <u>June 30, 13</u> | <u>June 30, 12</u> |
|----------------------------------|---------------------|---------------------|
| Current and other assets | \$ 177,286 | \$ 102,140 |
| Capital assets | <u>4,236,420</u> | <u>3,630,314</u> |
| Total assets | 4,413,706 | 3,732,454 |
| Long-term liabilities | - | - |
| Other liabilities | <u>117,527</u> | <u>42,673</u> |
| Total liabilities | 117,527 | 42,673 |
| Net position: | | |
| Net investment in capital assets | 4,236,420 | 3,630,314 |
| Restricted | - | - |
| Unrestricted | <u>59,759</u> | <u>59,467</u> |
| Total net investment | <u>\$ 4,296,179</u> | <u>\$ 3,689,781</u> |

Condensed Statement of Activities

| | <u>June 30, 13</u> | <u>June 30, 12</u> |
|----------------------------------|---------------------|---------------------|
| Revenues: | | |
| Program revenues: | | |
| Operating grants | \$ 177,748 | \$ 356,801 |
| Capital grants and contributions | 643,837 | 86,939 |
| General revenues: | | |
| Interest | <u>455</u> | <u>587</u> |
| Total revenues | <u>822,040</u> | <u>444,327</u> |
| Expenses: | | |
| Railroad rehabilitation | 206,736 | 346,669 |
| Other general government | <u>8,906</u> | <u>44,260</u> |
| Total expenses | <u>215,642</u> | <u>390,929</u> |
| Change in net position | 606,398 | 53,398 |
| Beginning net position | <u>3,689,781</u> | <u>3,636,383</u> |
| Ending net position | <u>\$ 4,296,179</u> | <u>\$ 3,689,781</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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Bedford Railroad Authority, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 Bedford Railroad Authority, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 inquires 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bedford Railroad Authority's basic financial statements. The schedule of expenditures of federal awards and state financial assistance and the organizational data are presented for purposes of additional analysis and are not a required part of the basic 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 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 general 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 basic 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 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* in considering Bedford Railroad Authority's internal control over financial reporting and compliance.

Winnett Associates, PLLC

November 25, 2013

**STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
BEDFORD RAILROAD AUTHORITY**

June 30, 2013

| | General Fund | Adjustments Note I | Statement of Net Assets |
|-------------------------------------|-------------------|-----------------------|----------------------------|
| ASSETS | | | |
| Cash in bank | \$ 5,663 | \$ - | \$ 5,663 |
| Certificate of deposit | 53,831 | - | 53,831 |
| State grants receivable | 117,527 | - | 117,527 |
| Interest receivable | 87 | - | 87 |
| Prepaid expenses | 178 | - | 178 |
| Capital assets | - | 4,236,420 | 4,236,420 |
| TOTAL ASSETS | <u>\$ 177,286</u> | <u>4,236,420</u> | <u>4,413,706</u> |
| LIABILITIES | | | |
| Accounts payable - vendors | \$ 117,527 | - | 117,527 |
| TOTAL LIABILITIES | <u>117,527</u> | <u>-</u> | <u>117,527</u> |
| FUND BALANCES/ NET POSITION | | | |
| Fund balances: | | | |
| Nonspendable - prepaid insurance | 178 | 178 | - |
| Unassigned | 59,581 | 59,581 | - |
| TOTAL FUND BALANCES | <u>59,759</u> | <u>59,759</u> | <u>-</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 177,286</u> | | |
| Net position: | | | |
| Net investment in capital assets | | 4,236,420 | 4,236,420 |
| Unrestricted | | 59,759 | 59,759 |
| TOTAL NET POSITION | | <u>\$ 4,296,179</u> | <u>\$ 4,296,179</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, 2013

| | General Fund | Adjustments Note J | Statement of Activities |
|--------------------------------------|------------------|-----------------------|----------------------------|
| Expenditures/expenses: | | | |
| Railroad - operations | \$ 177,911 | \$ 37,731 | \$ 215,642 |
| Capital outlay | - | - | - |
| Total expenditures/expenses | <u>177,911</u> | <u>37,731</u> | <u>215,642</u> |
| Program revenues: | | | |
| Operating grants | 177,748 | - | 177,748 |
| Capital grants and contributions | - | 643,837 | 643,837 |
| Total program revenues | <u>177,748</u> | <u>643,837</u> | <u>821,585</u> |
| Net program expense | | | <u>605,943</u> |
| General revenues: | | | |
| Investment earnings | 455 | - | 455 |
| Sale of materials | - | - | - |
| Miscellaneous | - | - | - |
| Total general revenues | <u>455</u> | <u>-</u> | <u>455</u> |
| Excess of revenues over expenditures | 292 | (292) | |
| Change in net position | | 606,398 | 606,398 |
| Fund balance/ net position: | | | |
| Beginning of the year | 59,467 | 3,630,314 | 3,689,781 |
| End of the year | <u>\$ 59,759</u> | <u>\$ 4,236,420</u> | <u>\$ 4,296,179</u> |

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

NOTES TO FINANCIAL STATEMENTS
BEDFORD RAILROAD AUTHORITY

June 30, 2013

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 position and the statement of activities) 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

BEDFORD RAILROAD AUTHORITY

June 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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.

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.

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.

(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, 2013, is deemed necessary.

NOTES TO FINANCIAL STATEMENTS (Continued)

BEDFORD RAILROAD AUTHORITY

June 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(4) Budgetary information

No budget is adopted by the Authority as 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.

(6) Net Position Flow Assumption

The Authority will on occasion fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the authority's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

(7) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial 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 does not have any items that qualify for reporting in this category as of June 30, 2013.

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 does not have any items that qualify for reporting in this category as of June 30, 2013.

NOTES TO FINANCIAL STATEMENTS (Continued)

BEDFORD RAILROAD AUTHORITY

June 30, 2013

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.

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 Z11RE200400 | \$ 180 |
| Contract Z11RE200500 | 10 |
| Contract Z11RE200600 | 24 |
| Contract Z11RE204300 | 7,360 |
| Contract Z11RR101300 | 4,974 |
| Contract 02950-3564-04 | 1,698 |
| Contract Z11RR101700 | 3 |
| Contract GG113348300 | 84 |
| Contract Z12RE103900 | 6,035 |
| Contract Z12RE100300 | 6,503 |
| Contract Z12RE102100 | 4,232 |
| Contract GG113435100 | 14 |
| Contract Z13RR101600 | 3,661 |
| Contract 02950-3566-04 | <u>1,202</u> |
| AMOUNT AVAILABLE AS OF JUNE 30, 2013 | <u>\$ 35,980</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.

NOTES TO FINANCIAL STATEMENTS (Continued)

BEDFORD RAILROAD AUTHORITY

June 30, 2013

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.

NOTE E - CASH AND INVESTMENTS

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. The Authority's board of directors has not formally adopted deposit and investment policies that limit the Authority's allowable deposits or investments and address the specific types of risk to which the Authority is exposed.

NOTE F - DEPOSIT CUSTODIAL CREDIT RISK

Custodial credit risk is the risk of loss of deposits in the event of a bank failure. The Authority does not have a formal written deposit policy to address custodial credit risk. As of June 30, 2013, the Authority's cash was held at one financial institution and did not exceed the Federal Deposit Insurance Corporation (FDIC) insurance limit.

NOTE G - EXEMPTION FROM INCOME TAX

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

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

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, 2013, totaled \$4,236,420.

NOTES TO FINANCIAL STATEMENTS (Continued)

BEDFORD RAILROAD AUTHORITY

June 30, 2013

NOTE J - 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. No capital assets were purchased for the year ended June 30, 2013. Capital assets donated by the City of Shelbyville totaled \$643,837 and depreciation expense totaled \$37,731.

NOTE K - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, 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 | - | - | - | - |
| Total capital assets, not being depreciated | <u>7,421</u> | <u>-</u> | <u>-</u> | <u>7,421</u> |
| Capital assets, being depreciated: | | | | |
| Infrastructure | <u>3,773,032</u> | <u>643,837</u> | <u>-</u> | <u>4,416,869</u> |
| Total capital assets being depreciated | <u>3,773,032</u> | <u>643,837</u> | <u>-</u> | <u>4,416,869</u> |
| Less accumulated depreciation for: | | | | |
| Infrastructure | <u>150,139</u> | <u>37,731</u> | <u>-</u> | <u>187,870</u> |
| Total accumulated depreciation | <u>150,139</u> | <u>37,731</u> | <u>-</u> | <u>187,870</u> |
| Total capital assets, being depreciated, net | <u>3,622,893</u> | <u>606,106</u> | <u>-</u> | <u>4,228,999</u> |
| Governmental activities capital assets, net | <u>\$3,630,314</u> | <u>\$ 606,106</u> | <u>\$ -</u> | <u>\$4,236,420</u> |

NOTES TO FINANCIAL STATEMENTS (Continued)

BEDFORD RAILROAD AUTHORITY

June 30, 2013

NOTE L - SUBSEQUENT EVENT

By letter dated September 20, 2013, the Commissioner of the State of Tennessee Department of Transportation notified the Authority of a Stop Work Notice applicable to all active grant contracts. This notice was necessary due to a lawsuit ruling the Tennessee Department of Revenue's (TDOR) taxing of diesel fuel assessed to the plaintiff was discriminatory and a violation of the Railroad Revitalization and Regulatory Reform Act of 1976. Similar suits have been filed by other entities against TDOR. Additionally, multiple Class I railroads have filed separate actions seeking refunds of taxes paid for the past several years. While the Authority does not have any significant grant contracts in process as of the date of the notice, the larger issue is the uncertainty as to future grant funding. Were the Tennessee Department of Transportation to cease grant funding it would have a significant impact on the Authority's activities.

SUPPLEMENTARY INFORMATION

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

Year ended June 30, 2013

| 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 | Z11RE200500 | \$ - | \$ 329 | \$ 329 | \$ - |
| TN Dept. of Transportation | N/A | Z11RE200600 | - | 1,256 | 1,256 | - |
| TN Dept. of Transportation | N/A | Z11RE202400 | 4,032 | 10,012 | 5,980 | - |
| TN Dept. of Transportation | N/A | Z11RE204300 | - | 2,412 | 2,667 | 255 |
| TN Dept. of Transportation | N/A | Z12RR101300 | 38,644 | 47,387 | 8,743 | - |
| TN Dept. of Transportation | N/A | Z12RE103900 | - | 1,915 | 1,915 | - |
| TN Dept. of Transportation | N/A | Z12RE102100 | - | 6,877 | 8,341 | 1,464 |
| TN Dept. of Transportation | N/A | GG113435100 | - | 2,453 | 2,453 | - |
| TN Dept. of Transportation | N/A | ZZ13RR101600 | - | 26,143 | 141,629 | 115,486 |
| TN Dept. of Transportation | N/A | 02950-3566-04 | - | 4,112 | 4,434 | 322 |
| TOTAL STATE FINANCIAL ASSISTANCE | | | <u>\$ 42,676</u> | <u>\$ 102,896</u> | <u>\$ 177,747</u> | <u>\$ 117,527</u> |

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, 2013. The schedule is presented using the modified accrual basis of accounting.

See independent auditors' report.

OTHER INFORMATION

ORGANIZATIONAL DATA
BEDFORD RAILROAD AUTHORITY

June 30, 2013

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
Jerry Fox
Eugene Ray
Ron Stacy
Joe Tillett
Jay Johnson

See independent auditors' report

**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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of Bedford Railroad Authority, as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise Bedford Railroad Authority's basic financial statements and have issued our report thereon dated November 25, 2013.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described below, we identified certain deficiencies in internal control 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 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Bedford Railroad Authority's Response to Findings

Bedford Railroad Authority's responses to the findings identified in our audit are described above. Bedford Railroad Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Winnett Associates, PLLC

November 25, 2013