

AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

**TRI-COUNTY RAILROAD  
AUTHORITY, INC.**

Sparta, Tennessee  
June 30, 2009

**WINNETT**  
*Associates, PLLC*

Certified Public Accountants and Consultants

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## **INDEPENDENT AUDITORS' REPORT**

Tri-County Railroad Authority, Inc.  
Sparta, Tennessee

We have audited the accompanying financial statements of the governmental activities and the general fund of Tri-County Railroad Authority, Inc. as of and for the year ended June 30, 2009, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Tri-County 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 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 the general fund of Tri-County Railroad Authority, Inc. as of June 30, 2009, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Tri-County Railroad Authority, Inc. has not presented the management's discussion and analysis that accounting principles generally accepted in the United States have determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2009, on our consideration of Tri-County Railroad Authority, Inc's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

*Winnett Associates*

December 18, 2009

**TRI-COUNTY RAILROAD AUTHORITY, INC.**  
**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET**

June 30, 2009

	General Fund	Adjustments	Statement of Net Assets
<b>ASSETS</b>			
Cash in bank	\$ 45,605	\$ -	\$ 45,605
Certificates of deposit	97,089	-	97,089
State grants receivable	78,659	-	78,659
Lease income receivable	3,309	-	3,309
Prepaid expenses	458	-	458
Capital assets	-	943,755	943,755
TOTAL ASSETS	<u>\$ 225,120</u>	<u>\$ 943,755</u>	<u>\$ 1,168,875</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 81,153	\$ -	\$ 81,153
TOTAL LIABILITIES	<u>\$ 81,153</u>	<u>\$ -</u>	<u>\$ 81,153</u>
<b>FUND BALANCES/ NET ASSETS</b>			
<b>Fund balances:</b>			
Unreserved	\$ 143,967	\$ (143,967)	\$ -
TOTAL FUND BALANCES	<u>\$ 143,967</u>	<u>\$ (143,967)</u>	<u>\$ -</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 225,120</u>		
<b>Net assets:</b>			
Invested in capital assets		\$ 943,755	\$ 943,755
Restricted		-	-
Unrestricted		143,967	143,967
TOTAL NET ASSETS		<u>\$ 1,087,722</u>	<u>\$ 1,087,722</u>

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

**TRI-COUNTY RAILROAD AUTHORITY, INC.**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND**  
**REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

Year ended June 30, 2009

	General Fund	Adjustments	Statement of Activities
<b>Expenditures/expenses:</b>			
Railroad - operations	\$ 1,550,705	\$ 5,750	\$ 1,556,455
Capital outlay	721,274	(721,274)	-
Total expenditures/expenses	<u>\$ 2,271,979</u>	<u>\$ (715,524)</u>	<u>\$ 1,556,455</u>
<b>Program revenue:</b>			
Charges for services	\$ 10,106	\$ -	\$ 10,106
Operating grants	1,538,759	-	1,538,759
Capital grants	721,274	-	721,274
Total program revenues	<u>\$ 2,270,139</u>	<u>\$ -</u>	<u>\$ 2,270,139</u>
Net program revenue			<u>\$ 713,684</u>
<b>General revenues:</b>			
Investment earnings	\$ 3,018	\$ -	\$ 3,018
Total general revenues	<u>\$ 3,018</u>	<u>\$ -</u>	<u>\$ 3,018</u>
Excess of revenues over expenditures	1,178	(1,178)	-
Change in net assets	-	716,702	716,702
<b>Fund balance/ net assets:</b>			
Beginning of the year	142,789	228,231	371,020
End of the year	<u>\$ 143,967</u>	<u>\$ 943,755</u>	<u>\$ 1,087,722</u>

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

**NOTES TO FINANCIAL STATEMENTS**  
**TRI-COUNTY RAILROAD AUTHORITY, INC.**

**June 30, 2009**

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Tri-County Railroad Authority, Inc. (the Authority) was created by an act of the Tennessee legislature in 1981 to purchase from Seaboard System Railroad, Inc., the property, track, and roadbed along 60.1 miles in Coffee, Warren, and White Counties known as the Sparta Branch line.

The operations of the Authority are conducted by a board of directors whose members are appointed by the governing bodies of Coffee, Warren, and White Counties of Tennessee.

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. Taxes and 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 (CONT'D)**  
**TRI-COUNTY RAILROAD AUTHORITY, INC.**

**June 30, 2009**

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(2) Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Cont'd)

As of July 1, 2003, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Statement 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets and a statement of activities and changes in net assets. It requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt - 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 the related 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, net of related debt."

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.

(3) Accounts Receivable

All significant receivables are due from the State of Tennessee Department of Transportation; therefore, no provision for uncollectible accounts at June 30, 2009, is deemed necessary.

(4) Budgeting

The Authority's board of directors did not adopt a budget for the current fiscal year and there is no legal requirement to do so. Thus, no budget is included in these financial statements.

(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. The result of this election is that all costs of the railroad and related infrastructure, such as bridges, incurred prior to July 1, 2003, are excluded from these financial statements.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

TRI-COUNTY RAILROAD AUTHORITY, INC.

June 30, 2009

NOTE B - CONTRACTS

The Authority has entered into a fifty-year lease with Caney Fork and Western Railroad, Inc. to operate the railroad line. This lease grants the operator an option to purchase all existing real and personal property owned by the Authority. The lease may be terminated by agreement of both parties upon ten days written notice.

Under the terms of the lease, the Authority is required to rehabilitate the line. After the rehabilitation, the operator will provide appropriate maintenance of the line. The operator is to make annual payments between 1% and 4% of its gross revenues. Amounts paid by the operator for the year ended June 30, 2009 were \$10,106.

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. A description of grants outstanding and the remaining amounts that are available follows:

<u>Description</u>	<u>Amount Available</u>
Contract Z07033930	\$ 5,199
Contract Z08020942	12,407
Contract Z08020883	3,680
Contract Z08020925	43,280
Contract Z08020924	46,818
Contract Z08020901	33,558
Contract Z09213092	4,864
Contract Z09213050	50,736
Contract Z09213068	<u>40,422</u>
AMOUNT AVAILABLE AS OF JUNE 30, 2009	<u>\$ 240,964</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.

**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**TRI-COUNTY RAILROAD AUTHORITY, INC.**

**June 30, 2009**

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**NOTE D - 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, personal injuries and natural disasters. The Authority's only two significant assets are cash and capital assets. To insure cash, the Authority purchases fidelity bonds on the two board members who handle cash. The capital assets are not normally insurable. Management believes that any other losses would normally be immaterial and handled through the Authority's general fund at the time of the loss.

**NOTE E - EXEMPTION FROM INCOME TAX**

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

**NOTE F - DEPOSITS 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 does not have a formal policy that limits custodial credit risk for deposits. Custodial credit risk is the risk that in the event of a bank failure the Authority's deposits may not be returned to it. However, the Authority follows state statutes requiring all deposits with financial institutions to be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Public fund accounts covered by the pool are considered to be insured for purposes of custodial credit risk exposure. For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the metropolitan government.

The Authority has chosen to invest all idle funds in certificates of deposit which, along with its checking account balance, are entirely covered by federal depository insurance.

**NOTE G - CONTINGENCIES**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims may constitute a liability. The amount, if any, of expenditures which may be disallowed by grantor agencies cannot be determined at this time; however, the Authority expects such amounts to be immaterial.

**NOTES TO FINANCIAL STATEMENTS (CONT'D)**  
**TRI-COUNTY RAILROAD AUTHORITY, INC.**

June 30, 2009

NOTE H - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Right of way	\$ <u>80,647</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>80,647</u>
Capital assets, being depreciated				
Buildings	\$230,000	\$ -0-	\$ -0-	\$230,000
Bridges	<u>-0-</u>	<u>721,274</u>	<u>-0-</u>	<u>721,274</u>
Total capital assets, being depreciated	\$230,000	\$721,274	\$ -0-	\$951,274
Less Accumulated depreciation for:				
Buildings	<u>(82,416)</u>	<u>(5,750)</u>	<u>-0-</u>	<u>(88,166)</u>
Total capital assets being depreciated, net	<u>\$147,584</u>	<u>\$715,524</u>	<u>\$ -0-</u>	<u>\$863,108</u>
Capital assets, net	<u>\$228,231</u>	<u>\$715,524</u>	<u>\$ -0-</u>	<u>\$943,755</u>

NOTE I - 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, 2009 totaled \$943,755.

NOTE J - EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE 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. Depreciation expense for the year ended June 30, 2009, totaled \$5,750.

## **SUPPLEMENTARY INFORMATION**

**ACCOUNTANTS' REPORT ON SUPPLEMENTARY INFORMATION**

Tri-County Railroad Authority, Inc.  
Sparta, Tennessee

Our report on our audit of the basic financial statements of Tri-County Railroad Authority, Inc. appears on page 3. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information presented hereinafter is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Winnett Associates*

December 18, 2009

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE**  
**TRI-COUNTY RAILROAD AUTHORITY, INC.**

Year ended June 30, 2009

Grantor Agency	CFDA Number	Contract Number	Beginning Accrued	Cash Receipts	Expenditures	Adjustments	Ending Accrued
<u>FEDERAL AWARDS</u>							
None							
<u>STATE FINANCIAL ASSISTANCE</u>							
TN Dept. of Transportation	N/A	Z05025854	\$ -	(91)	\$ 91	\$ -	\$ -
TN Dept. of Transportation	N/A	Z05025872	(4,884)	-	-	4,884	-
TN Dept. of Transportation	N/A	Z05025886	-	(7,082)	-	7,082	-
TN Dept. of Transportation	N/A	Z09213092	-	(180,572)	180,572	-	-
TN Dept. of Transportation	N/A	Z08020901	-	(856)	6,863	-	6,007
TN Dept. of Transportation	N/A	Z08020924	-	(540,701)	540,701	-	-
TN Dept. of Transportation	N/A	Z08020925	-	(1,376,108)	1,445,921	-	69,813
TN Dept. of Transportation	N/A	Z08020883	-	(33,903)	36,742	-	2,839
TN Dept. of Transportation	N/A	Z07033930	-	(19,849)	19,849	-	-
TN Dept. of Transportation	N/A	Z07033899	29,845	(47,831)	17,986	-	-
TN Dept. of Transportation	N/A	Z07033881	22,617	(26,843)	4,226	-	-
TOTAL STATE FINANCIAL ASSISTANCE			<u>\$ 47,578</u>	<u>\$ (2,233,836)</u>	<u>\$ 2,252,951</u>	<u>\$ 11,966</u>	<u>\$ 78,659</u>

**Note 1:** This Schedule of Expenditures of Federal Awards and State Financial Assistance summarizes the expenditures of Tri-County Railroad Authority, Inc. under programs of the federal and state governments for the year ended June 30, 2009. The schedule is presented using the modified accrual basis of accounting.

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**

Tri-County Railroad Authority, Inc.  
Sparta, Tennessee

We have audited the financial statements of the governmental activities and the general fund of Tri-County Railroad Authority, Inc. as of and for the year ended June 30, 2009, which collectively comprise Tri-County Railroad Authority Inc.'s basic financial statements and have issued our report thereon dated December 18, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tri-County Railroad Authority Inc.'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 Tri-County Railroad Authority Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Tri-County Railroad Authority Inc.'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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Tri-County Railroad Authority Inc.'s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Tri-County Railroad Authority Inc.'s financial statements that is more than inconsequential will not be prevented or detected by Tri-County Railroad Authority Inc.'s internal control. We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2009-1 and 2009-2.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Tri-County Railroad Authority Inc.'s internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that all the significant deficiencies described above are material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tri-County Railroad Authority Inc.'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*.

Tri-County Railroad Authority Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit Tri-County Railroad Authority Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information of management, the State Comptroller's office, others within the Authority, and government oversight organizations and is not intended to be and should not be used by anyone other than these specified parties.

*Winnett Associates*

December 18, 2009

**SCHEDULE OF FINDINGS**  
**TRI-COUNTY RAILROAD AUTHORITY, INC.**

June 30, 2009

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**FINDING 2009-1 Lack of Segregation of Duties**

*Condition, Criteria, Cause and Effect:* Due to the lack of administrative personnel employed by the Authority, there is an inappropriate segregation of duties related to accounting responsibilities. Specifically, the duties of depositing customer payments, recording customer payments and all disbursements in the accounting records, reconciling the checking account, and preparing financial reports reviewed by the Board are performed by one individual.

*Recommendation:* We acknowledge that the limited number of personnel precludes ideal segregation of duties for cash receipts and disbursements functions. However, we recommend that, whenever possible, certain responsibilities be reassigned to prevent an individual from having control over a transaction from beginning to end.

*Management Response:* We feel the cost to fully correct this internal control weakness would exceed the benefits. However, we will review our procedures and segregate duties where possible.

**FINDING 2009-2 Lease Income**

*Condition, Criteria, Cause and Effect:* The railroad operator prepares reports detailing the quarterly calculation of lease payments to the Authority. It is our understanding that these reports are the only information the Authority relies on as to the accuracy of the lease payments. It is our understanding that the Authority has the right to inspect the revenue records of the railroad operator.

*Recommendation:* We recommend the Authority review revenue records of the operator sufficient to determine the correctness of the lease payments.

*Management Response:* We will review this situation and related contracts and proceed accordingly.