AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

BEDFORD RAILROAD AUTHORITY

Shelbyville, Tennessee
June 30, 2009

WINNETT
Associates, PLLC
Certified Public Accountants and Consultants

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MANAGEMENT'S DISCUSSION AND ANALYSIS

BEDFORD RAILROAD AUTHORITY

Year ended June 30, 2009

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, 2009.

Financial Highlights

- The assets of the Authority exceeded the liabilities at the close of business on June 30, 2009, by $3,684,983.49 (net assets). Of this amount, $56,748.25 (unrestricted net assets) may be used to meet the Authority's ongoing obligations to citizens and creditors.
- During the fiscal year ended June 30, 2009, the Authority's total net assets decreased by $8,129.88.
- At the end of the fiscal year ended June 30, 2009, unreserved fund balances totaled $56,748.25, or 26.7% of total fund expenditures.
- The only debt that the Authority had at June 30, 2009 was $1,521.83 due to the engineering firm that represents the Authority with TDOT. That amount is offset by the same dollar amount due to the Authority from the State of Tennessee.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the Authority that are principally supported by contracts with TDOT and subcontracts with railroad operators and vendors that are intended to recover all or a significant portion of their costs through a rebill and pass-through system of reimbursement for the Authority, operators and vendors. TDOT does provide an administrative fee on each new contract, which is available to the Authority upon submission of an invoice for same when the contracts are signed and approved by all parties. These fees provide funds to the Authority for the payment of actual overhead expenses. The Authority is in the business of oversight of the operation of the short-line railroad between Shelbyville, Tennessee and the CSX Railroad main-line in Wartrace, Tennessee, a distance of approximately eight miles.

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

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

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by $3,684,983.49 at the close of the fiscal year ended June 30, 2009. A portion of the Authority's net assets (1.47%) 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 (.08% of net assets) is used for payment of the month-to-month operating expenses and is replenished by interest earned on the certificate of deposit and the receipt of administrative fees on new contracts with the State of Tennessee-Department of Transportation. It is noted here (and in the following paragraph under "capital assets") that the Authority's net assets include land and bridges with a total cost of $3,627,400.24.

Capital assets

Capital assets as shown on the Statement of Net Assets ($3,627,400.24) consists of the land upon which the eight-mile short-line railroad track is located as well as a bridge constructed during 2005 and a bridge constructed in 2007-2008. We do not anticipate any change in these assets in the foreseeable future.

Contracts

The amount not yet drawn (at June 30, 2009) upon the seven contracts with TDOT for engineering, rehabilitation, repair and improvement of the Authority's rail line is $39,499.10. 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 seven 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 Assets

	June 30, 09	June 30, 08
Current and other assets	$ 59,105.08	$ 103,563.50
Capital assets	3,627,400.24	3,636,453.96
Total assets	3,686,505.32	3,740,017.85
Long-term liabilities	-	-
Other liabilities	1,521.83	46,904.09
Total liabilities	1,521.83	46,904.09
Net assets:		
Invested in capital assets	3,627,400.24	3,636,453.96
Restricted	835.00	835.00
Unrestricted	56,748.25	55,824.41
Total net assets	$ 3,684,983.49	$3,693,113.37

Condensed Statement of Activities

	June 30, 09	June 30, 08
Revenues:		
Program revenues:		
Operating grants	$ 183,588.59	$ 119,598.83
Capital grants	27,546.64	3,260,661.55
General revenues:		
Interest	2,299.75	2,758.05
Total revenues	213,434.98	3,404,183.43
Expenses:		
Railroad rehabilitation	178,226.59	140,763.83
Other general government	43,338.27	8,342.34
Total expenses	221,564.86	149,106.17
Change in net assets	(8,129.88)	3,255,077.26
Beginning net assets	3,693,113.37	438,036.11
Ending net assets	$ 3,684,983.49	$ 3,693,113.37

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

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Certified Public Accountants and Consultants

514 Elm Street, P. O. Box 745
Shelbyville, Tennessee 37162

INDEPENDENT AUDITORS' REPORT

Board of Directors
Bedford Railroad Authority
Shelbyville, Tennessee

We have audited the accompanying financial statements of the governmental activities and each major fund of Bedford Railroad Authority as of and for the year ended June 30, 2009, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Bedford Railroad Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Bedford Railroad Authority as of June 30, 2009, and the respective changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2009, 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 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.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Winnett Associates

November 19, 2009

BEDFORD RAILROAD AUTHORITY

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2009

	General Fund	Adjustments	Statement of Net Assets
ASSETS			
Cash in bank	$ 2,789.49	$ -	$ 2,789.49
Certificate of deposit	54,331.26	-	54,331.26
State grants receivable	1,521.83	-	1,521.83
Interest receivable	284.84	-	284.84
Prepaid expenses	177.66	-	177.66
Capital assets	-	3,627,400.24	3,627,400.24
TOTAL ASSETS	$ 59,105.08	$ 3,627,400.24	$ 3,686,505.32
LIABILITIES			
Accounts payable - vendors	$ 1,521.83	$ -	$ 1,521.83
TOTAL LIABILITIES	$ 1,521.83	$ -	$ 1,521.83
FUND BALANCES/ NET ASSETS			
Fund balances:			
Unreserved	$ 56,748.25	$ (55,824.41)	$ -
Reserved for railroad rehabilitation	835.00	(835.00)	-
TOTAL FUND BALANCES	$ 57,583.25	$ (56,659.41)	$ -
TOTAL LIABILITIES AND FUND BALANCES	$ 59,105.08		
Net assets:			
Invested in capital assets		$ 3,627,400.24	$ 3,627,400.24
Restricted		835.00	835.00
Unrestricted		56,748.25	56,748.25
TOTAL NET ASSETS		$ 3,684,983.49	$ 3,684,983.49

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

BEDFORD RAILROAD AUTHORITY

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year ended June 30, 2009

	General Fund	Adjustments	Statement of Activities
Expenditures/expenses:			
Railroad - operations	$ 184,964.50	$ 36,600.36	$ 221,564.86
Capital outlay	27,546.64	(27,546.64)	-
Total expenditures/expenses	$ 212,511.14	$ 9,053.72	$ 221,564.86
Program revenue:			
Operating grants	$ 183,588.59	$ -	$ 183,588.59
Capital grants	27,546.64	-	27,546.64
Total program revenues	$ 211,135.23	$ -	$ 211,135.23
Net program expense			$ (10,429.63)
General revenues:			
Investment earnings	$ 2,299.75	$ -	$ 2,299.75
Total general revenues	$ 2,299.75	$ -	$ 2,299.75
Excess of revenues over expenditures	923.84	(923.84)	
Change in net assets		(8,129.88)	(8,129.88)
Fund balance/ net assets:			
Beginning of the year	56,659.41	3,636,453.96	3,693,113.37
End of the year	$ 57,583.25	$ 3,627,400.24	$ 3,684,983.49

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

(1) Government-wide and fund financial statements

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

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

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

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

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

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

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

Unrestricted - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, 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 amounts are due from the State of Tennessee Department of Transportation; therefore, no provision for uncollectible accounts at June 30, 2009 is deemed necessary.

(4) Budgetary Information

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

(5) Capital Assets

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

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

NOTE B - CONTRACTS

Walking Horse and Eastern Railroad Company, Inc.

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

WHERC, Inc. was not required to make annual payments for the first three years of operation, but an annual payment of $3,000.00 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 $25,000.00. Due to the loss of significant customers of the railroad, these requirements have been temporarily waived by the Authority. This contract expired in 2000; and the Authority has voted to operate under the terms of the 1985 contract and the approved earlier change 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:

Description		Amount Available
Contract Z07033908	$	2,325.00
Contract Z07033883		2,251.99
Contract Z08020867		268.70
Contract Z08020885		1,749.97
Contract Z08020926		14.17
Contract Z08020947		20,500.00
Contract Z09213052		12,389.27
AMOUNT AVAILABLE AS OF JUNE 30, 2009	$	39,499.10

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

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

NOTE D - CONTINGENCY

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

NOTE E - CASH

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

NOTE F - EXEMPTION FROM INCOME TAX

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

NOTE G - RESERVED FUNDS

As of June 30, 2009, the Authority has $835.00 reserved for railroad rehabilitation. According to the original contract between the Authority and the Tennessee Department of Transportation, all sales of railroad property must be approved by the State and the proceeds remitted to the State. In approving a prior year sale of railroad property, the State permitted retention of all proceeds provided they are reinvested in the railroad. Therefore, the net proceeds from the sale were reserved and legally identified by the Authority as being held for this specific purpose. During the year ended June 30, 1997, $7,000.00 of these funds was used to remove track, and the reserve balance was, accordingly, reduced by that amount. None of the reserved funds were expended during the year ended June 30, 2009.

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 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 $3,627,400.24.

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. Capital assets purchased totaled $27,546.64 and depreciation expense totaled $36,600.36.

NOTE K - CAPITAL ASSETS

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

Governmental activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 7,421.10			$ 7,421.10
Construction in progress	3,517,290.07		$3,517,290.07	-0-
Total capital assets, not being depreciated	$ 3,524,711.17	$ -0-	$3,517,290.07	$ 7,421.10
Capital assets, being depreciated:				
Infrastructure	$ 115,198.76	$3,544,836.71	$ -0-	$3,660,035.47
Total capital assets being depreciated	$ 115,198.76	$3,544,836.71	$ -0-	$3,660,035.47
Less accumulated depreciation for:				
Infrastructure	$ 3,455.97	$ 36,600.36	$ -0-	$ 40,056.33
Total accumulated depreciation	$ 3,455.97	$ 36,600.36	$ -0-	$ 40,056.33
Total capital assets, being depreciated, net	$ 111,742.79	$3,508,236.35	$ -0-	$ 3,619,979.14
Governmental activities capital assets, net	$ 3,636,453.96	$3,508,236.35	$3,517,290.07	$3,627,400.24

SUPPLEMENTARY INFORMATION

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514 Elm Street, P. O. Box 745
Shelbyville, Tennessee 37162

ACCOUNTANTS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
Bedford Railroad Authority
Shelbyville, Tennessee

Our report on our audit of the basic financial statements of Bedford Railroad Authority appears on page 7. 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

November 19, 2009

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

BEDFORD RAILROAD AUTHORITY

Year ended June 30, 2009

Grantor Agency	CFDA Number	Contract Number	Beginning Accrued	Cash Receipts	Expenditures	Ending Accrued
FEDERAL AWARDS						
None						
STATE FINANCIAL ASSISTANCE						
TN Dept. of Transportation	N/A	STP-437(1)	$ 45,677.39	$ 73,224.03	$ 27,546.64	$ -
TN Dept. of Transportation	N/A	Z07033908	-	1,820.00	1,820.00	-
TN Dept. of Transportation	N/A	Z07033865	553.32	5,190.47	4,637.15	-
TN Dept. of Transportation	N/A	Z07033883	673.38	2,865.93	2,192.55	-
TN Dept. of Transportation	N/A	Z08020867	-	13,137.30	13,137.30	-
TN Dept. of Transportation	N/A	Z08020885	-	6,282.03	6,282.03	-
TN Dept. of Transportation	N/A	Z08020926	-	-	1,521.83	1,521.83
TN Dept. of Transportation	N/A	Z08020947	-	152,981.00	152,981.00	-
TN Dept. of Transportation	N/A	Z09213052	-	1,016.73	1,016.73	-
TOTAL STATE FINANCIAL ASSISTANCE			$ 46,904.09	$ 256,517.49	$ 211,135.23	$ 1,521.83

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, 2009. The schedule is presented using the modified accrual basis of accounting.

See accountants' report on other financial information.

ORGANIZATIONAL DATA

BEDFORD RAILROAD AUTHORITY

June 30, 2009

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

Ed Craig	Chairman
Joe Tillett	Vice-Chairman
L. Wayne Bomar	Secretary/ Attorney
C. Bailey Little, Jr.	Treasurer

DIRECTORS

Wallace Cartwright
Al Stephenson
Walter Wood
Patsy Throneberry
Eugene Ray
Ed Craig
Joe Tillett
Don Gallagher

See accountants' report on other financial information.

WINNETT
Associates, PLLC

Certified Public Accountants and Consultants

Certified Public Accountants
514 Elm Street, P. O. Box 745
Shelbyville, Tennessee 37162

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

Board of Directors
Bedford Railroad Authority
Shelbyville, Tennessee

We have audited the financial statements of the governmental activities and each major fund of Bedford Railroad Authority as of and for the year ended June 30, 2009, which collectively comprise Bedford Railroad Authority's basic financial statements and have issued our report thereon dated November 19, 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 Bedford Railroad Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bedford Railroad Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Bedford Railroad Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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 Bedford Railroad Authority'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 Bedford Railroad Authority's financial statements that is more than inconsequential will not be prevented or detected by Bedford Railroad Authority's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting.

> *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.

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.

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 Bedford Railroad Authority'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 the deficiencies described above are material weaknesses.

Compliance and Other Matters

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

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

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

Winnett Associates

November 19, 2009