

**CARROLL -HENRY COUNTY  
RAILROAD AUTHORITY**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2009**

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**CARROLL -HENRY COUNTY RAILROAD AUTHORITY**  
**AUDITED FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

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## **INTRODUCTORY SECTION**

**CARROLL-HENRY COUNTY RAILROAD AUTHORITY**

**ROSTER OF OFFICIALS**

**JUNE 30, 2009**

<b><u>Officials</u></b>	<b><u>Position</u></b>
Brent Greer	Chairman (Henry County)
Earl Anderson	Director (Henry County)
Kenny McBride	Director (Carroll County)
John Mann	Director (Carroll County)

## **FINANCIAL SECTION**

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Carroll-Henry County Railroad Authority  
Paris, Tennessee

We have audited the accompanying financial statements of the governmental activities and the major fund of the Carroll-Henry County 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 the management of the Carroll-Henry County Railroad Authority. Our responsibility is to express an opinion 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 opinion.

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 Carroll-Henry County Railroad Authority as of June 30, 2009, and the respective changes in financial position thereof 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 a report dated December 21, 2009, on our consideration of the Carroll-Henry County Railroad Authority's internal control over financial reporting and our test 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 should be considered in assessing the results of our audit.

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

The budgetary comparison schedule as listed in the table of contents 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 consist principally of inquires 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.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying information listed under the introductory section and other supplementary information sections in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements nor are the schedules required supplementary information of the Carroll-Henry County Railroad Authority. The other supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the introductory section.

*Durham, Nunnery, Brooks & Poyner, P.C.*

Durham, Nunnery, Brooks & Poyner, P.C.  
Certified Public Accountants  
December 21, 2009

*CARROLL-HENRY COUNTY RAILROAD AUTHORITY*  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2009**

	<u>Governmental Activities</u>
<b><u>ASSETS</u></b>	
Cash and Cash Equivalents	\$ 42,536
Accounts Receivable	35,737
Prepaid Expense	<u>300</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 78,573</u></b>
<b><u>LIABILITIES</u></b>	
Accounts Payable	<u>\$ 5,703</u>
<b>Total Liabilities</b>	<b><u>5,703</u></b>
<b><u>NET ASSETS</u></b>	
Unrestricted	<u>72,870</u>
<b>Total Net Assets</b>	<b><u>72,870</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 78,573</u></b>

The accompanying notes are an integral part of these financial statements.

**CARROLL-HENRY COUNTY RAILROAD AUTHORITY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Governmental Activities - by Function</u>		
<u>EXPENSES</u>	<u>TOTAL</u>	<u>Administration</u>	<u>Track &amp; Bridge</u>
Track and Bridge Rehabilitation	\$ 1,504,020	\$ -	\$ 1,504,020
Engineering Fees	138,115	-	138,115
Audit Services	2,250	2,250	-
Administrative Expenses (Accounting)	1,250	1,250	-
Board Member Fees	700	700	-
Office Expense	-	-	-
Dues and Subscriptions	100	100	-
Miscellaneous	1,035	1,035	-
<b>Total Expenses</b>	<u>1,647,470</u>	<u>5,335</u>	<u>1,642,135</u>
<b><u>Program Revenues</u></b>			
Operating Grants and Contributions:			
Department of Transportation (Tennessee)	1,672,168	-	1,672,168
<b>Total Program Revenues</b>	<u>1,672,168</u>	<u>-</u>	<u>1,672,168</u>
<b>Net Program Revenue (Expense)</b>	24,698	<u>\$ (5,335)</u>	<u>\$ 30,033</u>
<b><u>General Revenues:</u></b>			
Investment Earnings - Interest	360		
<b>Total General Revenues</b>	<u>360</u>		
<b>Change in Net Assets</b>	25,058		
<b>Net Assets - Beginning of Year</b>	<u>47,812</u>		
<b>Net Assets - End of Year</b>	<u>\$ 72,870</u>		

The accompanying notes are an integral part of these financial statements.

**CARROLL-HENRY COUNTY RAILROAD AUTHORITY**  
**BALANCE SHEET - GOVERNMENTAL FUND TYPE**  
**JUNE 30, 2009**

	<b>General Fund</b>
<b><u>ASSETS</u></b>	
Cash and Cash Equivalents	\$ 42,536
Accounts Receivable	35,737
Prepaid Expense	<u>300</u>
<b>TOTAL ASSETS</b>	<b><u><u>\$ 78,573</u></u></b>
 <b><u>LIABILITIES AND FUND BALANCE</u></b>	
<b>Liabilities:</b>	
Accounts Payable	<u>\$ 5,703</u>
<b>    Total Liabilities</b>	<u>5,703</u>
 <b>Fund Balance:</b>	
Reserved For:	
Prepays	300
Unreserved	<u>72,570</u>
<b>    Total Fund Balance</b>	<u>72,870</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u><u>\$ 78,573</u></u></b>

**Reconciliation to the Statement of Net Assets:**

For the present period, there are no adjustments required.

The accompanying notes are an integral part of these financial statements.

**CARROLL-HENRY COUNTY RAILROAD AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - GOVERNMENTAL FUND TYPE  
FOR THE YEAR ENDED JUNE 30, 2009**

	<b>General Fund</b>
<b><u>REVENUES</u></b>	
<u>State of Tennessee - Public Works Grants:</u>	
Department of Transportation (Tennessee)	\$ 1,672,168
<u>Other Local Revenues - Recurring Items:</u>	
Investment Earnings - Interest	360
<b>Total Revenues</b>	1,672,528
<b><u>EXPENDITURES</u></b>	
<u>Contracted Services:</u>	
Track and Bridge Rehabilitation	1,504,020
Engineering Fees	138,115
Audit Services	2,250
Administrative Expenses (Accounting)	1,250
Dues and Subscriptions	100
Miscellaneous	1,035
<u>Per Diem &amp; Fees:</u>	
Board Member Fees	700
<u>Supplies and Materials:</u>	
Office Expense	-
<b>Total Expenditures</b>	1,647,470
<b>Change in Fund Balance</b>	25,058
<b>Fund Balance - Beginning</b>	47,812
<b>Fund Balance - Ending</b>	\$ 72,870

**Reconciliation to the Statement of Activities:**

For the period presented, there are no adjustments required.

**The accompanying notes are an integral part of these financial statements.**

***CARROLL-HENRY COUNTY RAILROAD AUTHORITY***  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies followed by the Carroll-Henry County Railroad Authority (Authority) are described below to enhance the usefulness of the financial statements.

**Organization**

The Carroll-Henry County Railroad Authority was jointly created in November 1988 by Carroll County and Henry County, Tennessee pursuant to TCA 7-56-201. The Authority was established as a conduit for payment of funds between the Tennessee Department of Transportation (TDOT) and the Kentucky-West Tennessee Railroad Company (KWT) to rehabilitate the railroad between the Kentucky state line and Bruceton, Tennessee, including a lead to Spinks Clay Company near Henry, Tennessee. The Authority is comprised of four members. One member from each county is appointed by the County Commission, and the county executive/mayor of each county serves as a member and rotates every two years as chairman.

**Financial Reporting Entity**

In evaluating how to define the Authority, for financial reporting purposes, management has considered the criteria set forth in the *Governmental Accounting Standards Board (GASB), Statement No. 14, The Financial Reporting Entity*. The elements of the financial reporting entity are the primary government and, under certain circumstances, a component unit. In general, a primary government has a separately elected governing body, is legally separate and is fiscally independent. The basic criterion for including a potential component unit within the reporting entity is whether the primary government is financially accountable for the component unit.

The primary government is financially accountable if it appoints a voting majority of a component unit's governing body and either: 1) has the ability to impose its will on the component unit or 2) there is the potential for the component unit to provide financial benefits or impose financial burdens on the primary government.

Based on these criteria, there are no components units of the Authority.

**Measurement Focus/Basis of Accounting**

The accounting and reporting policies of the Authority conform to generally accepted accounting principles applicable to government as defined in the *Statements of Governmental Accounting Standards Board (GASB)*. The financial statements are prepared on the basis of GASB Statement Number 34, *Basic Financial Statements, Management's Discussion and Analysis for State and Local Governments* and related standards. This standard mandates government-wide (component unit-wide) financial statements of net assets and activities, which are presented on the "economic resources" measurement focus and accrual basis of accounting. It also requires, if applicable, that certain fixed assets be recorded at cost less accumulated depreciation.

***CARROLL-HENRY COUNTY RAILROAD AUTHORITY***  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

The Authority also is required to present fund financial statements for all of the funds relevant to the operations of the Authority. The measurement focus and basis of accounting used for the fund financial statements is determined by the fund type.

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which are comprised of its assets, liabilities, fund balance, revenues and expenditures. The fund types used by the Authority are described follows:

- **General Fund** – The General Fund is classified as a Governmental Fund Type and uses the current financial resources measurement focus and the modified accrual basis of accounting whereby revenues are recognized when measurable and available and expenditures are recognized when liabilities are incurred. If applicable, general capital asset acquisitions are reported as expenditures and proceeds of debt instruments are reported as other financing sources.

The General Fund is the only fund currently utilized by the Authority.

**Budget**

The Authority is required to prepare and adopt an annual budget. Once approved, the Authority may amend the legally adopted budget when unexpected circumstances arise that require modifications in estimated revenues and expenditures. Each amendment must have Board approval. Such amendments are to be made before the fact, to be reflected in the official minutes of the Board, and to be made prior to year-end. The budgetary comparison schedule, as listed in the table of contents, is in accordance with generally accepted accounting principles (GASB Statement No. 34).

The budgetary basis of accounting for the fund is the same as the basis of accounting utilized by the Authority's general fund.

**Capitalized Interest**

The Authority capitalizes interest expense incurred during periods of construction. There was no interest expense during the period; and, consequently, no interest expense was required to be capitalized.

**Compensated Absences**

The Authority has no employees.

**Income Taxes**

Because the Authority is considered a governmental unit, it is not subject to income taxes and no amount for taxes has been recorded in the accompanying statements.

***CARROLL -HENRY COUNTY RAILROAD AUTHORITY***  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**

**NOTE 2 – DEPOSITS AND CUSTODIAL CREDIT RISK**

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority's deposits may not be returned or the Authority will not be able to recover collateral securities in the possession of an outside party. 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. Further, state statutes require that the collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the Board.

The reconciled bank account balance of the Authority at year-end was \$42,536, while the bank balance was \$42,736. The deposits are considered insured by the Federal Depository Insurance Corporation (FDIC).

**NOTE 3 - RISK MANAGEMENT**

The Authority does not provide insurance coverage. However, the officers of the Authority are covered by a \$25,000 fidelity blanket bond.

**NOTE 4 – FIXED ASSETS**

All fixed assets are owned by the KWT Railroad, not the Carroll-Henry County Railroad Authority.

**NOTE 5 – NOTE PAYABLES**

There were no note payables existing at year end. In addition, the Authority did not engage in any long-term debt transactions during the year.

**NOTE 6 – COMMITMENTS**

Each grant agreement that the Authority enters into with the State of Tennessee, Department of Transportation, requires that the Authority and KWT Railway, Inc. (Operator) provide rail service for a period of five years following the date of each grant.

**SUPPLEMENTARY INFORMATION**

*CARROLL-HENRY COUNTY RAILROAD AUTHORITY*  
**SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>				
Department of Transportation	\$ 1,044,654	\$ 1,690,491	\$ 1,672,168	\$ (18,323)
Investment Earnings - Interest	300	300	360	60
<b>Total Revenues</b>	<u>1,044,954</u>	<u>1,690,791</u>	<u>1,672,528</u>	<u>(18,263)</u>
<b>Expenditures</b>				
Track and Bridge Rehabilitation	926,105	1,504,020	1,504,020	-
Engineering Fees	73,501	141,423	138,115	3,308
Audit Services	2,200	2,250	2,250	-
Administrative Expenses (Accounting)	1,600	1,600	1,250	350
Board Member Fees	800	800	700	100
Office Expense	100	100	-	100
Dues and Subscriptions	200	200	100	100
Miscellaneous	1,500	1,450	1,035	415
<b>Total Expenditures</b>	<u>1,006,006</u>	<u>1,651,843</u>	<u>1,647,470</u>	<u>4,373</u>
<b>Change in Fund Balance</b>	<u>\$ 38,948.00</u>	<u>\$ 38,948.00</u>	<u>\$ 25,058.00</u>	<u>\$ (13,890.00)</u>

**CARROLL-HENRY COUNTY RAILROAD AUTHORITY  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED JUNE 30, 2009**

<b>State Grantor/Pass-through Grantor/Program Title</b>	<b>Grant Number</b>	<b>Grants (Receivable) / Deferred 7/1/2008</b>	<b>Cash Receipts</b>	<b>Earned/ Expended</b>	<b>Grants (Receivable) / Deferred 6/30/2009</b>
Department of Transportation					
Division of Rail & Water					
Bridge Engineering Services	Z-05-025839-00	\$ -	\$ 462	\$ 462	\$ -
Bridge Engineering Services	Z-07-033884-00	(1,649)	5,310	3,661	-
Bridge Engineering Services	Z-08-020927-00	-	3,020	3,020	-
Bridge Engineering Services	Z-08-020886-00	-	31,376	31,376	-
Track Engineering Services	Z-08-020868-00	(4,762)	4,762	-	-
Bridge Engineering Services	Z-09-213035-00	-	15,082	20,739	(5,657)
Track Engineering Services	Z-09-213053-00	(1,315)	80,125	78,810	-
Track Rehabilitation	Z-09-213095-00	-	1,504,020	1,534,100	(30,080)
		<u>\$ (7,726)</u>	<u>\$ 1,644,157</u>	<u>\$ 1,672,168</u>	<u>\$ (35,737)</u>

**NOTES TO SCHEDULE OF STATE FINANCIAL ASSISTANCE**

**NOTE 1: SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of state financial assistance includes the state grant activity of the Carroll-Henry County Railroad Authority, and is presented on the accrual basis of accounting.

N/A = Not Applicable  
(1) = Information Not Available

**INTERNAL CONTROL AND COMPLIANCE SECTION**

**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  
Carroll-Henry County Railroad Authority  
Paris, Tennessee

We have audited the accompanying financial statements of the governmental activities and the major fund of the Carroll-Henry County Railroad Authority (Authority) as of and for the year ended June 30, 2009, and have issued our report thereon dated December 21, 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 the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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 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 the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

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 the Authority's internal control.

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, 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*.

We also noted certain matters that we reported to management of the Authority in a separate letter dated December 21, 2009.

This report is intended solely for the information and use of the Board of Directors, State of Tennessee Comptroller of the Treasury, and federal awarding agencies, if any, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, the report is a matter of public record.

*Durham, Nunnery, Brooks & Poyner, P.C.*

Durham, Nunnery, Brooks & Poyner, P.C.  
Certified Public Accountants  
December 21, 2009

***CARROLL -HENRY COUNTY RAILROAD AUTHORITY***  
**SCHEDULE OF PRIOR AUDIT FINDINGS – STATUS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

*Government Auditing Standards* require auditors to report on the status of uncorrected findings from prior audits. Presented below is the summarized data related to the prior year's (June 30, 2008) audit findings:

There were not any findings reported in the prior year.