

TENNESSEE SOUTHERN RAILROAD AUTHORITY

PULASKI, TENNESSEE

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2008

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Tennessee Southern Railroad Authority Board of Directors

Voting Members:

James L. Bailey, Jr.
Maury County Mayor
Chairman

Janet Vanzant
Giles County Executive
Vice Chairman

Paul Rosson
Lawrence County Executive
Secretary/Treasurer

Tim Dickey
City of Lawrenceburg

Joey Hardin
Lawrence County

Jimmy Attkinson
City of Mt. Pleasant

Edwin Lovell
Giles County

Mitchell Birdsong
City of Pulaski

Joe Reischman
City of Columbia



INDEPENDENT AUDITORS' REPORT

Board of Directors
Tennessee Southern Railroad Authority
Pulaski, Tennessee

We have audited the accompanying financial statements of the governmental activities and each major fund of the Tennessee Southern Railroad Authority (the "Authority") as of and for the year ended June 30, 2008, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the 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 the Tennessee Southern Railroad Authority as of June 30, 2008, and the respective changes in 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 August 27, 2009, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 Authority has not presented a Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying Schedule of Expenditures of State Awards, included on page 8, is presented 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.

Gray CPAs PLLC

Nashville, Tennessee
August 27, 2009

TENNESSEE SOUTHERN RAILROAD AUTHORITY

STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET

JUNE 30, 2008

	<u>General</u> <u>Fund</u>	<u>Adjustment</u> <u>(Note A)</u>	<u>Statement of</u> <u>Net Assets</u>
ASSETS			
Cash	\$ 281,752	\$ -	\$ 281,752
Grantor receivables	172,245	-	172,245
Inventory	<u>38,750</u>	<u>-</u>	<u>38,750</u>
Total assets	<u>\$ 492,747</u>	<u>\$ -</u>	<u>492,747</u>
LIABILITIES			
Accounts payable - subcontractors	<u>\$ 172,245</u>	<u>\$ -</u>	<u>172,245</u>
FUND BALANCE/NET ASSETS			
Fund balance:			
Reserved for inventory	38,750	(38,750)	-
Unreserved	<u>281,752</u>	<u>(281,752)</u>	<u>-</u>
Total fund balance	<u>320,502</u>	<u>(320,502)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 492,747</u>	<u>(320,502)</u>	<u>172,245</u>
Net assets - unrestricted		<u>\$ 320,502</u>	<u>\$ 320,502</u>

NOTE A - Reconciliation of unreserved fund balance to net assets

Unreserved fund balance	\$ 281,752
To report inventory on hand at year end	<u>38,750</u>
Net assets - unrestricted	<u>\$ 320,502</u>

See accompanying notes to financial statements.

TENNESSEE SOUTHERN RAILROAD AUTHORITY

STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE

FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Adjustment (Note B)	Statement of Activities
EXPENDITURES/EXPENSES			
Rail rehabilitation	\$ 1,701,753	\$ -	\$ 1,701,753
Materials and supplies	38,750	(38,750)	-
Administrative expense	11,870	-	11,870
	<u>1,752,373</u>	<u>(38,750)</u>	<u>1,713,623</u>
PROGRAM REVENUES			
Governmental grants	1,734,183	-	1,734,183
Sale of rail - Note 3	208,424	-	208,424
	<u>1,942,607</u>	<u>-</u>	<u>1,942,607</u>
EXCESS OF REVENUES OVER EXPENDITURES	190,234	(190,234)	-
CHANGE IN NET ASSETS	-	228,984	228,984
FUND BALANCE/NET ASSETS:			
BEGINNING OF YEAR	<u>91,518</u>	<u>-</u>	<u>91,518</u>
END OF YEAR	<u>\$ 281,752</u>	<u>\$ 38,750</u>	<u>\$ 320,502</u>

NOTE B - Reconciliation of excess of revenues over expenditures to change in net assets

Excess of revenues over expenses	\$ 190,234
To report inventory on hand at year end	<u>38,750</u>
 Change in net assets	<u>\$ 228,984</u>

See accompanying notes to financial statements.

TENNESSEE SOUTHERN RAILROAD AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1 - GENERAL

The Tennessee Southern Railroad Authority (the "Authority") serves Maury, Lawrence and Giles Counties of Tennessee by providing for the continuation of rail service within those counties. The Authority was organized on August 24, 1989, after each of the three participating counties passed a resolution approving the establishment of the Authority pursuant to Tennessee Code Annotated Section 7-56-201, *Establishment of Authority*. The resolutions were passed on July 17, July 24, and July 17, 1989, by Giles, Lawrence and Maury Counties, respectively.

The business of the Authority is conducted by a board of directors whose members are appointed by the governing bodies of the counties of service.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The financial statements are prepared in conformity with generally accepted accounting principles as established by the Governmental Accounting Standards Board ("GASB"). The Authority is a special-purpose government that is engaged in a single governmental program. Thus, the government-wide and fund financial statements are combined into one format.

Measurement Focus and Basis of Accounting - The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized in the period all eligibility requirements by the provider are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are considered to be available if they are collected within thirty days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Grants associated with the current fiscal period have been recognized as revenues of that period. All other revenue items are considered measurable and available only when the Authority receives cash.

Inventory - Inventory consists of new drive-on unit rail anchors that will be used in rail rehabilitation projects. Inventory is valued at the lower of cost or market using the first-in, first-out method in the government-wide financial statements and recorded as expense when consumed. In the governmental fund statement, inventories are recorded as expenditures when purchased (purchases method). On the governmental fund balance sheet, inventory on hand at the balance sheet date is reported as an asset and offset by the related fund balance reservation.

TENNESSEE SOUTHERN RAILROAD AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 3 - SALE OF RAIL

During the late 1990's, the Authority retained approximately 5 miles of 100 pound rail released from the Rockdale Hill track replacement project. Since that time, the Authority has donated some of the rail for use in industrial sidetracks and for replacement of defective rails. During 2008, the Authority received permission from the Tennessee Department of Transportation to sell the remaining rail to supplement the bridge rehabilitation project. The rail was not previously carried as an asset on the Authority's books and the entire sale proceeds of \$208,424 was recognized as revenue in the 2008 fiscal year.

NOTE 4 - DEPOSIT CUSTODIAL CREDIT RISK

Custodial risk is the risk of loss of deposits in the event of a bank failure. The Authority does not have a formalized and written deposit policy for custodial risk. As of June 30, 2008, the Authority's cash was held in one account at a financial institution and exceeded the Federal Deposit Insurance Corporation (FDIC) insurance limit by approximately \$99,000. The Emergency Economic Stabilization Act of 2008 temporarily increased FDIC coverage from \$100,000 to \$250,000 per depositor, effective October 3, 2008 through December 31, 2009. On May 20, 2009, the Helping Families Save Their Homes Act extended the temporary increase in FDIC coverage through December 31, 2013.

NOTE 5 - CONCENTRATIONS

The Authority receives the majority of its funding through various grants from the State of Tennessee Department of Transportation.

NOTE 6 - TAX-EXEMPT STATUS

The Authority is exempt from federal and state income taxes as it is deemed to be a governmental entity. Accordingly, no income taxes have been provided.

TENNESSEE SOUTHERN RAILROAD AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2008

NOTE 7 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to theft of, damage to and destruction of assets. The Authority is self-insured with respect to these risks and has had no claims or settled claims in any of the past three fiscal years.

NOTE 8 - NEW PRONOUNCEMENTS

The GASB has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which provides guidance on how to calculate and report the costs and obligations associated with pollution cleanup efforts. The requirements of the new statement become effective for fiscal periods beginning after December 15, 2007.

The GASB has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes accounting and financial reporting requirements for intangible assets including easements, water rights, timber rights, patents, trademarks, and computer software. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.

The Authority is currently evaluating the effects of implementing these pronouncements on the financial statements.

ADDITIONAL INFORMATION

TENNESSEE SOUTHERN RAILROAD AUTHORITY
SCHEDULE OF EXPENDITURES OF STATE AWARDS

FOR THE YEAR ENDED JUNE 30, 2008

Grantor	Contract Number / Project Number	Grant Period	Grant Award	Accrued (Deferred) Revenue Balance July 1, 2007	Grant Receipts	Grant Expenditures	Accrued (Deferred) Revenue Balance June 30, 2008
Tennessee Department of Transportation	Z-07033-906-00						
	98-823-9635-04	07/01/06-06/30/11	\$ 1,564,769	\$ 10,350	\$ 10,350	\$ -	\$ -
Tennessee Department of Transportation	Z-07033-897-00						
	98-RR07-S1-040	07/01/06-06/30/11	\$ 35,018	1,421	8,642	7,221	-
Tennessee Department of Transportation	Z-07033-879-00						
	98-RR07-S1-054	07/01/06-06/30/11	\$ 89,127	1,373	35,580	34,207	-
Tennessee Department of Transportation	Z-07033-913-00						
	98-RR07-S3-026	07/01/06-06/30/11	\$ 1,711,793	18,000	18,000	-	-
Tennessee Department of Transportation	Z-08020-881-00						
	98-RR08-S1-027	07/01/07-06/30/12	\$ 89,127	-	85,383	89,127	3,744
Tennessee Department of Transportation	Z-08020-899-00						
	98-RR08-S1-053	07/01/07-06/30/12	\$ 35,018	-	35,018	35,018	-
Tennessee Department of Transportation	Z-08020-906-00						
	98-RR08-S3-012	07/01/07-06/30/12	\$ 1,553,930	-	1,390,989	1,553,532 ⁽¹⁾	162,543
Tennessee Department of Transportation	Z-08020-919-00						
	98-RR08-S1-064	07/01/07-06/30/12	\$ 10,000	-	9,120	9,120	-
Tennessee Department of Transportation	Z-08020-940-00						
	98-RR08-S1-089	07/01/07-06/30/12	\$ 8,406	-	-	4,012	4,012
Tennessee Department of Transportation	Z-08020-921-00						
	98-RR08-S3-039	07/01/07-06/30/12	\$ 624,369	-	-	-	-
Tennessee Department of Transportation	Z-09-213-066						
	98-RR09-S1-053	07/01/08-06/30/13	\$ 100,000	-	-	1,946	1,946
TOTAL			\$ 31,144	\$ 1,593,082	\$ 1,734,183	\$ 1,946	\$ 172,245

⁽¹⁾ Includes administrative funding as follows:
Z-08020-906-00 \$ 32,430

Basis of Presentation

The schedule of expenditures of state awards presents the grant activity of the Tennessee Southern Railroad Authority in accordance with accounting principles generally accepted in the United States of America, which is the same basis of accounting as the basic financial statements.

OTHER REPORT



INDEPENDENT AUDITORS' 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
Tennessee Southern Railroad Authority
Pulaski, Tennessee

We have audited the financial statements of the Tennessee Southern Railroad Authority (the "Authority"), as of and for the year ended June 30, 2008, and have issued our report thereon dated August 27, 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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity'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 entity'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 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and responses as item 2008-01.

The Authority's response to the finding identified in our audit is also described in the accompanying schedule of findings and responses. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature in black ink that reads "Krag CPAs PLLC". The signature is written in a cursive, flowing style.

Nashville, Tennessee
August 27, 2009

TENNESSEE SOUTHERN RAILROAD AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2008

Prior Year

2007-01 - Internal Control over year-end closing

Status: This finding was resolved during fiscal year 2008.

2007-02 - Internal Control over financial reporting

Status: This finding was resolved during fiscal year 2008.

Current Year

2008-01 - Compliance with submission of annual audit to the Tennessee Comptroller of the Treasurer

Condition:

The audited financial statements for the year ended June 30, 2008 were not submitted to the State of Tennessee Comptroller of the Treasury ("Comptroller") on a timely basis.

Criteria:

The Authority is required under the State of Tennessee Audit Contract to submit its audited annual financial statements to the Comptroller no later than six months following the fiscal year.

Cause and effect:

The Administration oversight for the Authority is performed by personnel employed by the South Central Development District. Due to turnover in the accounting personnel during 2008 and commitment requirements of the District, the accounting records were not available for audit until February 2009. The auditor had prior commitments until May and was not able to perform and complete the audit. Thus, the audited financial statements were not filed timely with the Comptroller's office.

Recommendation:

We recommend that the audit be completed in accordance within the time requirements of the State of Tennessee audit contract.

Management's response:

We concur. The audit will be completed and submitted timely