

TENNESSEE SOUTHERN RAILROAD AUTHORITY

PULASKI, TENNESSEE

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2009

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PULASKI, TENNESSEE

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AND
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JUNE 30, 2009

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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 Atkinson
City of Mt. Pleasant

Edwin Lovell
Giles County

Mitchell Birdsong
City of Pulaski

Joe Reischman
City of Columbia

TENNESSEE SOUTHERN RAILROAD AUTHORITY

Management's Discussion and Analysis

As management of the Tennessee Southern Railroad Authority ("Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the Authority's performance during the fiscal year ending June 30, 2009. This discussion and analysis is intended to serve as an introduction to the Authority's financial statements; therefore, please read in conjunction with the Authority's financial statements, which follows this section.

OVERVIEW OF THE FINANCIAL STATEMENTS:

The Tennessee Southern Railroad Authority's financial statements comprise three components: 1) Statement of Net Assets and Governmental Fund Balance Sheet, 2) Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance, and 3) Notes to the Financial Statements. The Schedule of Expenditures of State Awards may also be found in this report.

The financial statements are prepared in conformity with generally accepted accounting principles as established by the Governmental Accounting Standards Board. The Authority is engaged in a single governmental program; therefore, the Authority's governmental-wide and fund financial statements are presented in one format.

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 if the financial position of the Tennessee Southern Railroad 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 the related cash flows.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The Notes to the Financial Statements may be found on pages 4 - 5 of this report.

The Schedule of Expenditures of State Awards presents the grant activity on all of the Authority's current grant awards with the State of Tennessee Department of Transportation 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.

FINANCIAL HIGHLIGHTS:

- The assets of the Tennessee Southern Railroad Authority exceeded its liabilities at June 30, 2009 by \$350,856. All of the net assets are unrestricted and may be used to meet the Authority's ongoing obligations; however, the Board has set aside \$10,479 for bridge engineering obligations.
- The Authority's total net assets increased \$30,354 during the fiscal year.
- The Authority does not have any long-term debt as of June 30, 2009.

NET ASSETS

	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 650,738	\$ 453,997
Inventory	<u>38,750</u>	<u>38,750</u>
Total assets	689,488	492,747
Current and other liabilities	<u>338,632</u>	<u>172,245</u>
Net assets	<u>\$ 350,856</u>	<u>\$ 320,502</u>

The cost of all governmental activities for the year ended June 30, 2009 was \$2,322,238. As shown in the Changes in Net Assets table below \$2,294,029 related to work performed on the government grants. The bridge engineering expenses were paid from the sale of rail materials of approximately five miles of rail for the year ended June 30, 2008.

CHANGES IN NET ASSETS

REVENUES

Government grants	\$ 2,352,592	\$ 1,734,183
Sale of rail materials	<u>-</u>	<u>208,424</u>
Total program revenue	<u>2,352,592</u>	<u>1,942,607</u>

EXPENSES

Rail rehabilitation - government grants	2,294,029	1,701,753
Bridge engineering	19,521	-
Administrative	<u>8,688</u>	<u>11,870</u>
Total expenses	<u>2,322,238</u>	<u>1,713,623</u>
Change in net assets	<u>\$ 30,354</u>	<u>\$ 228,984</u>

At the end of June 30, 2009, there were \$336,880 receivables due from the State of Tennessee Department of Transportation and \$338,632 payable to the Authority's subcontractors.

ECONOMIC FACTORS:

The status of economic growth at the state level determines the Tennessee Southern Railroad Authority's ability to continue serving Maury, Lawrence, and Giles Counties of Tennessee by providing for the continuation of rail service within these counties. The Authority, in addition to the regular allocation of governmental grant funds by the State of Tennessee Department of Transportation, will also receive additional funding as a result of the American Recovery and Investment Funds for the year ending June 30, 2010. This additional funding, however, is not considered American Recovery and Investment Funds and, therefore, will not require federal reporting.

REQUESTS FOR INFORMATION:

This financial report is designed to provide a general overview of the Tennessee Southern Railroad 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 the Chairman, Tennessee Southern Railroad Authority, Maury County Courthouse, Columbia, TN 38401.



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, 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 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, 2009, 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 December 29, 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.

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 pages 7-8, 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.

A handwritten signature in black ink that reads 'KraftCPAs PLLC'.

Nashville, Tennessee
December 29, 2009

TENNESSEE SOUTHERN RAILROAD AUTHORITY

STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET

JUNE 30, 2009

	<u>General Fund</u>	<u>Adjustment (Note A)</u>	<u>Statement of Net Assets</u>
ASSETS			
Cash	\$ 313,837	\$ -	\$ 313,837
Grantor receivables	336,880	-	336,880
Other receivables	21	-	21
Inventory	<u>38,750</u>	<u>-</u>	<u>38,750</u>
Total assets	<u>\$ 689,488</u>	<u>\$ -</u>	<u>689,488</u>
LIABILITIES			
Accounts payable - subcontractors	<u>\$ 338,632</u>	<u>\$ -</u>	<u>338,632</u>
FUND BALANCE/NET ASSETS			
Fund balance:			
Reserved for inventory	38,750	(38,750)	-
Unreserved	<u>312,106</u>	<u>(312,106)</u>	<u>-</u>
Total fund balance	<u>350,856</u>	<u>(350,856)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 689,488</u>	<u>(350,856)</u>	<u>338,632</u>
Net assets - unrestricted		<u>\$ 350,856</u>	<u>\$ 350,856</u>

NOTE A - The reconciliation of fund balance - unreserved, per the governmental financial statements (General Fund) to net assets - unrestricted, per the Statement of Net Assets of the Authority is as follows:

Fund balance - unreserved	\$ 312,106
To report inventory on hand at June 30, 2009	<u>38,750</u>
Net assets - unrestricted	<u>\$ 350,856</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, 2009

	<u>General Fund</u>	<u>Adjustment (Note B)</u>	<u>Statement of Activities</u>
EXPENDITURES/EXPENSES			
Rail rehabilitation	\$ 2,294,029	\$ -	\$ 2,294,029
Materials and supplies	19,521	-	19,521
Administrative expense	<u>8,688</u>	<u>-</u>	<u>8,688</u>
TOTAL EXPENDITURES	<u>2,322,238</u>	<u>-</u>	<u>2,322,238</u>
PROGRAM REVENUES			
Governmental grants	<u>2,352,592</u>	<u>-</u>	<u>2,352,592</u>
TOTAL PROGRAM REVENUES	<u>2,352,592</u>	<u>-</u>	<u>2,352,592</u>
EXCESS OF REVENUES OVER EXPENDITURES	30,354	(30,354)	-
CHANGE IN NET ASSETS	-	30,354	30,354
FUND BALANCE/NET ASSETS:			
BEGINNING OF YEAR	<u>281,752</u>	<u>38,750</u>	<u>320,502</u>
END OF YEAR	<u>\$ 312,106</u>	<u>\$ 38,750</u>	<u>\$ 350,856</u>

NOTE B - The only adjustment is to reclassify excess of revenues over expenditures, per the governmental financial statements (General Fund) to change in net assets, per the Statement of Activities of the Authority.

See accompanying notes to financial statements.

TENNESSEE SOUTHERN RAILROAD AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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 presentation.

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 were used in rail rehabilitation projects in July 2009. 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 in the current year 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, 2009

NOTE 3 - 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, 2009, 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 \$69,000. 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 4 - CONCENTRATIONS

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

NOTE 5 - 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.

NOTE 6 - 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 7 - NEW PRONOUNCEMENTS

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 this pronouncement on the financial statements.

ADDITIONAL INFORMATION

TENNESSEE SOUTHERN RAILROAD AUTHORITY
SCHEDULE OF EXPENDITURES OF STATE AWARDS

FOR THE YEAR ENDED JUNE 30, 2009

Grantor	Contract No. Project No.	Grant Period	Grant Award	Accrued (Deferred) Revenue Balance July 1, 2008	Grant Receipts	Expenditures	Accrued (Deferred) Revenue Balance June 30, 2009
Tennessee Department of Transportation	Z-08020-881-00 98-RR08-S1-027	07/01/07-06/30/12	\$ 89,127	\$ 3,744	\$ 3,744	\$ -	\$ -
Tennessee Department of Transportation	Z-08020-906-00 98-RR08-S3-012	07/01/07-06/30/12	\$ 1,553,930	162,543	162,543	-	-
Tennessee Department of Transportation	Z-08020-919-00 98-RR08-S1-064	07/01/07-06/30/12	\$ 10,000	-	880	880	-
Tennessee Department of Transportation	Z-08020-921-00 98-RR08-S3-039	07/01/07-06/30/12	\$ 624,369	-	624,369	624,369	(1)
Tennessee Department of Transportation	Z-08020-940-00 98-RR08-S1-089	07/01/07-06/30/12	\$ 8,406	4,012	8,406	4,394	-
Tennessee Department of Transportation	Z-09-213-048 98-RR09-S1-026	07/01/08-06/30/13	\$ 35,018	-	35,018	35,018	-
Tennessee Department of Transportation	Z-09-213-066 98-RR09-S1-053	07/01/08-06/30/13	\$ 100,000	1,946	100,000	98,054	-
Tennessee Department of Transportation	Z-09-213-072 98-RR09-S1-053	07/01/08-06/30/13	\$ 5,128	-	5,128	5,128	-
Tennessee Department of Transportation	Z-09-213-087 98-RR09-S3-039	07/01/08-06/30/13	\$ 227,389	-	217,389	217,389	(1)

TENNESSEE SOUTHERN RAILROAD AUTHORITY

SCHEDULE OF EXPENDITURES OF STATE AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2009

<u>Grantor</u>	<u>Contract No. Project No.</u>	<u>Grant Period</u>	<u>Grant Award</u>	<u>Accrued (Deferred) Revenue Balance July 1, 2008</u>	<u>Grant Receipts</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue Balance June 30, 2009</u>
Tennessee Department of Transportation	Z-09-213-096 98-RR09-S3-039	07/01/08-06/30/13	\$ 1,327,671	\$ -	920,533	\$ 1,163,533	(1) \$ 243,000
Tennessee Department of Transportation	Z-09-213-097 98-RR09-S3-012	07/01/08-06/30/13	\$ 209,060	-	106,060	199,940	(1) 93,880
Tennessee Department of Transportation	Z-09-213-098 98-RR09-S3-012	07/01/08-06/30/13	\$ 198,240	-	3,887	3,887	(1) -
TOTALS					<u>\$ 172,245</u>	<u>\$ 2,187,957</u>	<u>\$ 336,880</u>

(1) Includes Administrative Funding as Follows:

Z-08020-921-00	\$ 16,164
Z-09-213-087	6,419
Z-09-213-096	26,033
Z-09-213-097	6,060
Z-09-213-098	3,887
Total	<u>\$ 58,563</u>

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



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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, 2009, and have issued our report thereon dated December 29, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 cursive script that reads "Gray CPAs PLLC".

Nashville, Tennessee
December 29, 2009

TENNESSEE SOUTHERN RAILROAD AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2009

Prior Year

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

This finding was applicable to the year ended June 30, 2008 only and does not apply to the current year.