

TENNESSEE SOUTHERN RAILROAD AUTHORITY

PULASKI, TENNESSEE

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2012

TENNESSEE SOUTHERN RAILROAD AUTHORITY

PULASKI, TENNESSEE

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2012

TABLE OF CONTENTS

	<u>PAGE</u>
<u>BOARD OF DIRECTORS</u>	i
<u>MANAGEMENT DISCUSSION AND ANALYSIS</u>	ii - iv
<u>INDEPENDENT AUDITORS' REPORT</u>	1 - 2
 <u>FINANCIAL STATEMENTS</u>	
Statement of Net Assets and Governmental Fund Balance Sheet.....	3
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance	4
Notes to Financial Statements	5 - 7
 <u>ADDITIONAL INFORMATION</u>	
Schedule of Expenditures of State Awards.....	8 - 9
 <u>OTHER REPORT</u>	
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 <i>Government Auditing Standards</i>	10 - 11

Tennessee Southern Railroad Authority Board of Directors

Voting Members:

James L. Bailey, Jr.
Maury County Mayor
Chairman

Janet Vanzant
Giles County Executive
Vice Chairman

J. Mack Chandler
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

Non-Voting Members:

Matt Prince
Tennessee Southern Railroad

Harney Crouch
Crouch Engineering

George Coleman
TN Department of Transportation

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, 2012. 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 5 - 7 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, 2012 by \$208,084. All of the net assets are unrestricted and may be used to meet the Authority's ongoing obligations; however, the Board has set aside \$46,149, the balance from the sale of the rail in 2008, for bridge rehabilitation and engineering obligations.
- The Authority's total net assets did not change during the fiscal year.
- The Authority does not have any long-term debt as of June 30, 2012.

NET ASSETS

	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 208,101	\$ 266,988
Current and other liabilities	<u>17</u>	<u>58,904</u>
Net assets	<u>\$ 208,084</u>	<u>\$ 208,084</u>

At the end of June 30, 2012, there were receivables amounting to \$1,562 due from the State of Tennessee Department of Transportation and a payable to the Authority's subcontractors amounting to \$17.

The cost of all governmental activities for the year ended June 30, 2012 was \$2,059,592. As shown in the Changes in Net Assets table below, \$2,040,189 related to work performed on the government grants.

CHANGES IN NET ASSETS

	<u>2012</u>	<u>2011</u>
REVENUES		
Government grants	<u>\$ 2,059,592</u>	<u>\$ 1,942,603</u>
EXPENSES		
Rail rehabilitation - government grants	2,040,189	1,901,589
Materials, supplies and bridge engineering (1)	-	-
Administrative	<u>19,403</u>	<u>18,970</u>
Total expenses	<u>2,059,592</u>	<u>1,920,559</u>
Change in net assets	<u>\$ -</u>	<u>\$ 22,044</u>

- (1) In 2008, the Authority had proceeds from the sale of rail in the amount of \$208,424. These proceeds were used to fund materials, supplies and bridge engineering not funded by government contracts. Expenses were \$19,521 in 2009, \$142,754 in 2010, and no expenses in 2011 or 2012.

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.

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, 2012, 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 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2012, 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 November 29, 2012, 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.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis information on pages ii - iv be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of

preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements. The accompanying Schedule of Expenditures of State Awards on pages 8 - 9, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of State Awards is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Y. Francis CPAs PLLC". The signature is written in a cursive, flowing style.

Nashville, Tennessee
November 29, 2012

TENNESSEE SOUTHERN RAILROAD AUTHORITY

STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET

JUNE 30, 2012

	<u>General Fund</u>	<u>Adjustment (Note A)</u>	<u>Statement of Net Assets</u>
ASSETS			
Cash	\$ 206,539	\$ -	\$ 206,539
Grantor receivables	<u>1,562</u>	<u>-</u>	<u>1,562</u>
Total assets	<u>\$ 208,101</u>	<u>\$ -</u>	<u>208,101</u>
LIABILITIES			
Accounts payable - subcontractors	<u>\$ 17</u>	<u>\$ -</u>	<u>17</u>
FUND BALANCE/NET ASSETS			
Fund balance:			
Committed to bridge or rail rehabilitation	46,149	(46,149)	-
Unassigned	<u>161,935</u>	<u>(161,935)</u>	<u>-</u>
Total fund balance	<u>208,084</u>	<u>(208,084)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 208,101</u>	<u>(208,084)</u>	<u>17</u>
Net assets - unrestricted		<u>\$ 208,084</u>	<u>\$ 208,084</u>

NOTE A - The only adjustment is to reclassify the Authority's fund balance, per the governmental financial statements (General Fund) to net assets - unrestricted, per the Statement of Net Assets.

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, 2012

	<u>General Fund</u>	<u>Adjustment (Note B)</u>	<u>Statement of Activities</u>
PROGRAM REVENUES			
Governmental grants	<u>\$ 2,059,592</u>	<u>\$ -</u>	<u>\$ 2,059,592</u>
EXPENDITURES			
Rail rehabilitation	2,040,189	-	2,040,189
Administrative expense	<u>19,403</u>	<u>-</u>	<u>19,403</u>
TOTAL EXPENDITURES	<u>2,059,592</u>	<u>-</u>	<u>2,059,592</u>
EXCESS OF REVENUES OVER EXPENDITURES	-	-	-
CHANGE IN NET ASSETS	-	-	-
FUND BALANCE/NET ASSETS:			
BEGINNING OF YEAR	<u>208,084</u>	<u>-</u>	<u>208,084</u>
END OF YEAR	<u>\$ 208,084</u>	<u>\$ -</u>	<u>\$ 208,084</u>

NOTE B - There is no adjustment necessary in the reporting of the governmental financial statements (General Fund) to the Statement of Activities of the Authority.

See accompanying notes to financial statements.

TENNESSEE SOUTHERN RAILROAD AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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 governmental entity 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.

TENNESSEE SOUTHERN RAILROAD AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Fund Equity Classification

In the governmental fund financial statements, the Authority has established and will maintain reservations of fund balance, as defined herein, in accordance with Governmental Accounting and Financial Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB-54). The main objectives of this standard are to improve, including the understandability, the usefulness of fund balance information by providing clear fund balance classifications, and clarify the definition of existing governmental fund types. Fund balance shall be composed of the following fund types:

- *Non-spendable* - Amounts that cannot be spent because they are either in a (a) non-spendable form, including items not expected to be converted to cash (i.e. inventories, prepaid amounts, long-term portion of loans and notes receivable and property acquired for resale), or (b) legally or contractually required to be maintained intact (i.e. the principal of a permanent fund).
- *Restricted* - Amounts constrained to be used for a specific purpose as per external parties, constitutional provision, or enabling legislation.
- *Committed* - Amounts constrained to be used for a specific purpose as per action by the Board of Directors. Amounts classified as committed are not subject to legal enforceability like restricted resources; however, they cannot be used for any other purpose unless the Board of Directors remove or change the commitment by taking the same action it employed to impose the commitment.
- *Assigned* - Amounts intended to be used by the Authority for a specific purpose, but are neither restricted nor committed. The intent shall be expressed by the Board of Directors or a designee authorized by the Board of Directors for a specific purpose in accordance with policy established by the Board of Directors. The nature of the actions necessary to remove or modify an assignment is not as rigid as required under a committed fund balance classification.
- *Unassigned* - Amounts available for any purpose (amounts that are not non-spendable, restricted, committed, or assigned) in the General Fund.

Fund balances classified as committed include the remaining proceeds from the sale of rail ties in 2008. These proceeds are committed to bridge or rail rehabilitation projects that are not funded by government grants.

The Authority does not report or anticipate reporting a non-spendable, restricted or assigned fund balance.

TENNESSEE SOUTHERN RAILROAD AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Fund Equity Classification (Continued)

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the Authority to use the restricted amounts first as permitted under the law. When the expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the Authority to use the committed amounts first, followed by the assigned amounts and then unassigned amounts.

The Authority's projects are primarily funded by grants from the Tennessee Department of Transportation, as are the administrative costs. Thus, no minimum unassigned fund balance for the General Fund has been established. Any residual general fund balance amounts will be classified as unassigned.

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, 2012, the Authority's cash was held in one account at a financial institution and did not exceed the Federal Deposit Insurance Corporation (FDIC) insurance limit.

NOTE 4 - CONCENTRATIONS

The Authority receives its funding through various grants from the State of Tennessee Department of Transportation. A reduction in the level of funding, if this were to occur, could have a significant impact on the Authority's activities.

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.

ADDITIONAL INFORMATION

TENNESSEE SOUTHERN RAILROAD AUTHORITY

SCHEDULE OF EXPENDITURES OF STATE AWARDS

FOR THE YEAR ENDED JUNE 30, 2012

<u>Grantor</u>	<u>Contract No. Project No.</u>	<u>Grant Period</u>	<u>Grant Award</u>	<u>Accrued (Deferred) Revenue Balance July 1, 2011</u>	<u>Grant Receipts</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue Balance June 30, 2012</u>
Tennessee Department of Transportation	Z-11-RE2042-00 98-BE11-S1-012	03/01/11-02/29/16	\$ 96,000	\$ 8,082	\$ 95,983	\$ 87,901	\$ -
Tennessee Department of Transportation	Z-10-220838-00 98-TE10-S1-012	07/01/09-06/30/14	80,063	8,874	12,080	3,206	-
Tennessee Department of Transportation	GG-11-132336-00 98-SR10-S3-012	08/01/10-07/30/15	829,396	39,931	47,969	8,038	-
Tennessee Department of Transportation	Z-11-RR1009-00 98-TR10-S3-012	11/01/10-10/31/15	252,506	-	110	209	99
Tennessee Department of Transportation	Z-11-RR1011-00 98TR10-S3-012	03/01/11-02/29/16	186,556	3,333	161,556	158,223	-
Tennessee Department of Transportation	Z-11-RR1024-00 98BR11-S3-012	07/01/11-06/30/16	750,966	-	725,805	727,251	1,446
Tennessee Department of Transportation	Z-11-RE2038-00 98-TE11-S1-012	01/01/11-12/31/15	55,170	-	39,609	39,609	-
Tennessee Department of Transportation	Z-11-RE2057-00 98-SE11-S1-012	03/01/11-02/29-16	30,818	-	22,216	22,216	-
Tennessee Department of Transportation	Z-12-RE1017-00 98-BE-S1-012	01/01/12-12/31/16	26,650	-	26,642	26,642	-

TENNESSEE SOUTHERN RAILROAD AUTHORITY

SCHEDULE OF EXPENDITURES OF STATE AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2012

<u>Grantor</u>	<u>Contract No. Project No.</u>	<u>Grant Period</u>	<u>Grant Award</u>	<u>Accrued (Deferred) Revenue Balance July 1, 2010</u>	<u>Grant Receipts</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue Balance June 30, 2011</u>
Tennessee Department of Transportation	Z-12-RR1004-00 98-TR11-S3-012	10/01/11-09/30/16	736,400	\$ -	\$ 720,000	\$ 720,017	\$ 17
Tennessee Department of Transportation	Z-12-RR1020-00 98-SR11-S3-012	01/01/12-12/31/16	296,984	-	266,280	266,280	-
				<u>\$ 60,220</u>	<u>\$ 2,118,250</u>	<u>\$ 2,059,592</u>	<u>\$ 1,562</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



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, 2012, and have issued our report thereon dated November 29, 2012. 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

Management of the Authority is responsible for establishing and maintaining effective 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 black ink that reads "Grant CPAs PLLC". The signature is written in a cursive, stylized font.

Nashville, Tennessee
November 29, 2012