

TENNESSEE SOUTHERN RAILROAD AUTHORITY

PULASKI, TENNESSEE

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION  
AND  
INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2013

TENNESSEE SOUTHERN RAILROAD AUTHORITY

PULASKI, TENNESSEE

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION  
AND  
INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2013

TABLE OF CONTENTS

	<u>PAGE</u>
<u>BOARD OF DIRECTORS</u> .....	i
<u>MANAGEMENT DISCUSSION AND ANALYSIS</u> .....	ii - iv
<u>INDEPENDENT AUDITOR'S REPORT</u> .....	1 - 3
 <u>FINANCIAL STATEMENTS</u>	
Statement of Net Position and Governmental Fund Balance Sheet .....	4
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance .....	5
Notes to Financial Statements .....	6 - 9
 <u>ADDITIONAL INFORMATION</u>	
Schedule of Expenditures of State Awards .....	10 - 11
 <u>OTHER REPORT</u>	
Independent Auditor's 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> .....	12 - 13

# 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

Bert Spearman  
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:

Mitch Cockrell  
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, 2013. 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 Position 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 Position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. 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 position 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 6 - 9 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, 2013 by \$167,946. All of the net assets are unrestricted and may be used to meet the Authority's ongoing obligations; however, the Board has set aside \$6,011, the balance from the sale of the rail in 2008, for bridge rehabilitation and engineering obligations.
- The Authority does not have any long-term debt as of June 30, 2013.

### NET POSITION

	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 167,946	\$ 208,101
Current and other liabilities	<u>-</u>	<u>17</u>
Net position	<u>\$ 167,946</u>	<u>\$ 208,084</u>

At the end of June 30, 2013, there were receivables amounting to \$839 (\$1,562 in 2012) due from the State of Tennessee Department of Transportation and no liabilities. The Authority had accounts payable subcontractors amounting to \$17 in 2012.

The cost of all governmental activities for the year ended June 30, 2012 was \$1,020,080 (\$2,059,592 in 2012). Of the expenditures for rail rehabilitation shown in the Changes in Net Position table below, \$980,142 (\$2,040,189 in 2012) related to work performed on the government grants.

### CHANGES IN NET POSITION

	<u>2013</u>	<u>2012</u>
REVENUES		
Government grants	<u>\$ 980,142</u>	<u>\$ 2,059,592</u>
EXPENSES		
Rail rehabilitation	1,001,736	2,040,189
Administrative	<u>18,544</u>	<u>19,403</u>
Total expenses	<u>1,020,280</u>	<u>2,059,592</u>
Change in net position	<u>\$ (40,138)</u>	<u>\$ -</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, and \$40,138 in 2013.

**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.

Subsequent to year end, the Tennessee Southern Railroad Authority was notified by the State of Tennessee Department of Transportation that tax revenue which had previously provided the funding for the grants awarded to the Authority would no longer be available and that the Tennessee Department of Transportation was terminating all but two active grant contracts. The Tennessee Southern Railroad Authority has completed projects as funding allowed but has not initiated other projects. The Tennessee Southern Railroad Authority has an unassigned fund balance, which will be utilized for administrative expenses as needed, and the board of directors plan to continue meeting and pursuing other funding through the State of Tennessee.

**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 AUDITOR'S REPORT

Board of Directors  
Tennessee Southern Railroad Authority  
Pulaski, Tennessee

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and the major fund of the Tennessee Southern Railroad Authority (the "Authority"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR'S RESPONSIBILITY

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## 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 the major fund of the Tennessee Southern Railroad Authority as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## EMPHASIS-OF-MATTER

As discussed in Note 7 to the financial statements, the Authority has been notified that grant funding will be discontinued. Management's plans regarding those matters also are described in Note 7. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

## OTHER MATTERS

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

### *Other Information*

Our audit was conducted 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 on pages 10 - 11, 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2013 on our consideration of the Tennessee Southern Railroad Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tennessee Southern Railroad Authority's internal control over financial reporting and compliance.

*Kraft CPAs PLLC*

Nashville, Tennessee  
December 27, 2013

TENNESSEE SOUTHERN RAILROAD AUTHORITY

STATEMENT OF NET POSITION AND  
GOVERNMENTAL FUND BALANCE SHEET

JUNE 30, 2013

	<u>General Fund</u>	<u>Adjustment (Note A)</u>	<u>Statement of Net Position</u>
ASSETS			
Cash	\$ 167,107	\$ -	\$ 167,107
Grantor receivables	<u>839</u>	<u>-</u>	<u>839</u>
Total assets	<u>\$ 167,946</u>	<u>\$ -</u>	<u>167,946</u>
FUND BALANCE/NET POSITION			
Fund balance:			
Committed to bridge or rail rehabilitation	6,011	(6,011)	-
Unassigned	<u>161,935</u>	<u>(161,935)</u>	<u>-</u>
Total fund balance	<u>167,946</u>	<u>(167,946)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 167,946</u>	<u>(167,946)</u>	<u>-</u>
Net Position - unrestricted		<u>\$ 167,946</u>	<u>\$ 167,946</u>

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

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, 2013

	<u>General Fund</u>	<u>Adjustment (Note B)</u>	<u>Statement of Activities</u>
PROGRAM REVENUES			
Governmental grants	\$ 980,142	\$ -	\$ 980,142
EXPENDITURES			
Rail rehabilitation	1,001,736	-	1,001,736
Administrative expense	<u>18,544</u>	<u>-</u>	<u>18,544</u>
TOTAL EXPENDITURES	<u>1,020,280</u>	<u>-</u>	<u>1,020,280</u>
EXCESS OF EXPENDITURES OVER REVENUES	(40,138)	40,138	-
CHANGE IN NET POSITION	-	(40,138)	(40,138)
FUND BALANCE/NET POSITION:			
BEGINNING OF YEAR	<u>208,084</u>	<u>-</u>	<u>208,084</u>
END OF YEAR	<u>\$ 167,946</u>	<u>\$ -</u>	<u>\$ 167,946</u>

NOTE B - The only adjustment is to reclassify Excess of Expenditures Over Revenues per the governmental financial statements (General Fund) to Change in Net Position, per the Statement of Activities of the Authority.

TENNESSEE SOUTHERN RAILROAD AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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.

The Authority adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, and amendment of GASB Statements No. 14 and 34* during 2013. The objective of this statement was to improve financial reporting for a governmental financial reporting entity, and modifies certain requirement for inclusion of component units in the financial reporting entity. This statement did not have significant effect on the Authority as it has no component units.

The Authority also adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* during 2013. The objective of GASB Statement No. 63 was to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The statement was implemented retroactively and resulted in a change in the presentation of the statement of net assets to what is now referred to as the statement of net position and the term "net assets" is changed to "net position" throughout the entity-wide and proprietary fund statements. The adoption of GASB Statement No. 65 did not have a significant effect on the Authority as it had no items that were previously reported as assets and liabilities that were reclassified as deferred outflows of resources, deferred inflows of resources and current period outflows and inflows.

TENNESSEE SOUTHERN RAILROAD AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 by a majority vote of 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.

TENNESSEE SOUTHERN RAILROAD AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Fund Equity Classification (Continued)

- *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.

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, 2013, 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.

TENNESSEE SOUTHERN RAILROAD AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2013

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 - SUBSEQUENT EVENT

Subsequent to year end, the Tennessee Southern Railroad Authority was notified by the State of Tennessee Department of Transportation that tax revenue which had previously provided the funding for the grants awarded to the Authority would no longer be available and that the Tennessee Department of Transportation was terminating all but two active grant contracts. The Tennessee Southern Railroad Authority has completed projects as funding allowed but has not initiated other projects. The Tennessee Southern Railroad Authority has an unassigned fund balance, which will be utilized for administrative expenses as needed, and the board of directors plan to continue meeting and pursuing other funding through the State of Tennessee.

NOTE 8 - NEW PRONOUNCEMENTS

The GASB has issued Statement No. 66, Technical Corrections - 2012; an amendment of GASB Statements No. 10 and No. 62. The requirements of this statement are effective for periods beginning after December 15, 2012.

The GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement results from the comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The requirements of this statement are effective for financial periods beginning after June 15, 2014.

ADDITIONAL INFORMATION

TENNESSEE SOUTHERN RAILROAD AUTHORITY  
SCHEDULE OF EXPENDITURES OF STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013

<u>Grantor</u>	<u>Contract No. Project No.</u>	<u>Grant Period</u>	<u>Grant Award</u>	<u>Accrued (Deferred) Revenue Balance July 1, 2012</u>	<u>Grant Receipts</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue Balance June 30, 2013</u>
Tennessee Department of Transportation	Z-11-RR1009-00 98-TR10-S3-012	11/01/10-10/31/15	\$ 252,506	\$ 99	\$ 99	\$ -	\$ -
Tennessee Department of Transportation	Z-11-RR1024-00 98BR11-S3-012	07/01/11-06/30/16	750,966	1,446	7,316	5,870	-
Tennessee Department of Transportation	Z-11-RE2038-00 98-TE11-S1-012	01/01/11-12/31/15	55,170		15,525	15,525	-
Tennessee Department of Transportation	Z-11-RE2057-00 98-SE11-S1-012	03/01/11-02/29-16	30,818		4,567	4,567	-
Tennessee Department of Transportation	Z-12-RE1053-00 98-BE12-S1-026	04/01/12-03/31/17	65,000		32,474	32,474	-
Tennessee Department of Transportation	Z-12-RE2058-00 98-BE12-S1-012	06/01/12-05/31/17	90,000		89,995	89,995	-
Tennessee Department of Transportation	Z-12-RR1004-00 98-TR11-S3-012	10/01/11-09/30/16	736,400	17	11,851	11,834	-

TENNESSEE SOUTHERN RAILROAD AUTHORITY

SCHEDULE OF EXPENDITURES OF STATE AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

<u>Grantor</u>	<u>Contract No. Project No.</u>	<u>Grant Period</u>	<u>Grant Award</u>	<u>Accrued (Deferred) Revenue Balance July 1, 2012</u>	<u>Grant Receipts</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue Balance June 30, 2013</u>
Tennessee Department of Transportation	Z-12-RR1020-00 98-SR11-S3-012	01/01/12-12/31/16	296,984		-	839	\$ 839
Tennessee Department of Transportation	Z-12-RE1035-00 98-TE-12-S1-012	01/01/12-12/31/16	80,768	-	80,768	80,768	-
Tennessee Department of Transportation	Z-12-RE1036-00 98-BR-12-S3-012	06/01/12-05/31/17	332,250	-	306,038	306,038	-
Tennessee Department of Transportation	Z-13-RR1004-00 98-BR12-S3-012	08/12/12-7/31/17	434,233	-	404,653	404,653	-
Tennessee Department of Transportation	Z-13-RE2015-00 98-BE-13-S1-012	01/01/13-12/31/17	32,964	-	4,462	4,462	-
Tennessee Department of Transportation	Z-13-RE2033-00 98-TE13-S1-012	02/01/13-01/31/18	100,000	-	23,117	23,117	-
				<u>\$ 1,562</u>	<u>\$ 980,865</u>	<u>\$ 980,142</u>	<u>\$ 839</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 AUDITOR'S 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, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Tennessee Southern Railroad Authority as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 27, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Tennessee Southern Railroad Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 a 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. A *significant deficiency* is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

#### PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Nashville, Tennessee  
December 27, 2013