TENNESSEE SOUTHERN RAILROAD AUTHORITY

PULASKI, TENNESSEE

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2015

TENNESSEE SOUTHERN RAILROAD AUTHORITY

PULASKI, TENNESSEE

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2015

TABLE OF CONTENTS

	PAGE
BOARD OF DIRECTORS	i
MANAGEMENT DISCUSSION AND ANALYSIS	ii - iv
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statement of Net Position 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
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*	8 - 9
Schedule of Prior Year Findings and Questioned Costs	10

Tennessee Southern Railroad Authority
Board of Directors

Voting Members:

Charlie Norman
Maury County Mayor
Chairman

Janet Vanzant
Giles County Executive
Treasurer

T.R. Williams
Lawrence County Executive
Vice Chairman

Tim Dickey
City of Lawrenceburg

Bert Spearman
Lawrence County

Jimmy Attkinson
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

Harvey 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, 2015. 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 net position. Over time, increases or decreases in net position 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 position 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 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, 2015 by $148,063. All of the net position is 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, 2015.

NET POSITION

	2015	2014
Current and other assets	$ 148,063	$ 165,955
Current and other liabilities	-	-
Net position	$ 148,063	$ 165,955

At the end of June 30, 2015, there were no receivables due from the State of Tennessee Department of Transportation ($0 in 2014) and no liabilities. The Authority had no accounts payable to subcontractors as of June 30, 2015 or 2014.

The cost of all governmental activities for the year ended June 30, 2015 was $0 ($970,867 in 2014). Of the expenditures for rail rehabilitation shown in the Changes in Net Position table below, $0 ($968,876 in 2014) related to work performed on the government grants.

CHANGES IN NET POSITION

	2015	2014
REVENUES		
Government grants	$ -	$ 968,876
EXPENSES		
Rail rehabilitation	-	950,783
Administrative	17,892	20,084
Total expenses	17,892	970,867
Change in net position	$ (17,892)	$ (1,991)

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, $40,138 in 2013, and $0 in 2014 and 2015.

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 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.

KraftCPAs
PLLC

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, 2015, 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.

KraftCPAs PLLC - Certified Public Accountants and Consultants
555 Great Circle Road • Nashville, TN 37228 • Phone 615-242-7351 • Fax 615-782-4271 • www.kraftcpas.com

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, 2015, 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.

GRANT FUNDING

As discussed in Note 6 to the financial statements, the Authority was notified in a prior year that grant funding was being discontinued. Management's plans regarding those matters also are described in Note 6. 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 REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2016 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
January 19, 2016

TENNESSEE SOUTHERN RAILROAD AUTHORITY

STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET

JUNE 30, 2015

	General Fund	Adjustment (Note A)	Statement of Net Position
ASSETS			
Cash	$ 148,063	$ -	$ 148,063
Total assets	$ 148,063	$ -	148,063
FUND BALANCE/NET POSITION			
Fund balance:			
Committed to bridge or rail rehabilitation	6,011	(6,011)	-
Unassigned	142,052	(142,052)	-
Total fund balance	$ 148,063	(148,063)	-
Net Position - unrestricted		$ 148,063	$ 148,063

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, 2015

	General Fund	Adjustment (Note B)	Statement of Activities
PROGRAM REVENUES			
Governmental grants	$ -	$ -	$ -
EXPENDITURES			
Rail rehabilitation	-	-	-
Administrative expense	17,892	-	17,892
TOTAL EXPENDITURES	17,892	-	17,892
EXCESS OF EXPENDITURES OVER REVENUES	(17,892)	17,892	
CHANGE IN NET POSITION		(17,892)	(17,892)
FUND BALANCE/NET POSITION - BEGINNING OF YEAR	165,955	0	165,955
END OF YEAR	$ 148,063	$ 0	$ 148,063

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.

See accompanying notes to financial statements.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Fund Equity Classification

The governmental funds report fund balances in classifications that comprise a hierarchy based primarily on the extent to which the Authority is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The categories of fund balance are as follows:

- *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.
- *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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2015, 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 - 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 5 - 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 6 - GRANT FUNDING

During 2014, 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. 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.

OTHER REPORT

KraftCPAs
PLLC

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 and major fund of the Tennessee Southern Railroad Authority as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 19, 2016.

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.

KraftCPAs PLLC - Certified Public Accountants and Consultants
555 Great Circle Road • Nashville, TN 37228 • Phone 615-242-7351 • Fax 615-782-4271 • www.kraftcpas.com

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.

Kraft CPAs PLLC

Nashville, Tennessee
January 19, 2016

TENNESSEE SOUTHERN RAILROAD AUTHORITY

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

FINANCIAL STATEMENT FINDINGS

PRIOR YEAR

There were no prior year findings reported.