

NASHVILLE & EASTERN RAILROAD AUTHORITY
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

NASHVILLE & EASTERN RAILROAD AUTHORITY

JUNE 30, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Nashville & Eastern Railroad Authority

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and the major fund of the Nashville & Eastern Railroad Authority as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Nashville & Eastern Railroad Authority's basic financial statements as listed in the table of contents.

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 Nashville & Eastern Railroad Authority, as of June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Nashville & Eastern Railroad Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Nashville & Eastern Railroad Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Nashville & Eastern Railroad Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Nashville & Eastern Railroad Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-9 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Nashville & Eastern Railroad Authority's basic financial statements. The accompanying schedules of State Financial Assistance and Changes in Long Term Debt are presented for purposes of additional analysis and are not a required part of the basic 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 basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Schedule of Fidelity Bonds of Principal Officers but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work

performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2024, on our consideration of the Nashville & Eastern 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 solely 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 effectiveness of the Nashville & Eastern Railroad Authority's 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 Nashville & Eastern Railroad Authority's internal control over financial reporting and compliance.



Lebanon, TN
March 20, 2024

Management's Discussion and Analysis

This section of the Nashville & Eastern Railroad Authority's (the Authority) audited financial statements presents our discussion and analysis of the Organization's financial performance during the fiscal year that ended on June 30, 2023. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights

The Organization's net position increased \$708,389 over the course of this year's operations.

The Tennessee Shortline system of 800 plus miles serves 35 out of 95 Counties plus small to medium size urban areas. The 800 miles generates a wide economic footprint developing the industrial landscape that brings jobs to Tennessee.

The change in net position is a 1.93% increase from the fiscal year ended June 30, 2022.

The total cost of the Organization's expenditures in 2023 increased 3.55% from the fiscal year ended June 30, 2022. Operating Revenue decreased 70.90% during the fiscal year ended June 30, 2023.

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Nashville & Eastern Railroad Authority:

The first two statements are government-wide financial statements that provide both long-term and short-term information about the Authority's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the government, reporting the Authority's operations in more detail than the government-wide statements. The governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Government-Wide Statements

The government-wide statements report information about the Nashville & Eastern Railroad Authority as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Authority's net position and how they have changed. Net position—the difference between the Board's assets and liabilities – is one way to measure the Nashville & Eastern Railroad's financial health, or position.

Over time, increases or decreases in the Authority's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the Authority you need to consider additional non-financial factors.

Fund Financial Statements

The fund financial statements provide more detailed information about the Authority's most significant funds – not the Authority as a whole. Funds are accounting devices that the Authority uses to keep track of specific sources of funding and spending for particular purposes.

Some funds are required by State law and bond covenants. Other funds are established to control and manage money for particular purposes or to show that the government is properly using taxes.

The Nashville & Eastern Railroad Authority has only one kind of fund:

1. Governmental funds – Most basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

Financial Analysis of the Organization as a whole

Net Position. The Organization's net position decreased \$708,389 between fiscal years 2023 and 2022. In comparison, net position for the fiscal year ended June 30, 2022 increased \$6,989,956 from the fiscal year ended June 30, 2021. Income from ongoing operations decreased \$6,225,372 during the fiscal year ended June 30, 2023.

Nashville & Eastern Railroad Authority
Net Position
June 30, 2023 and 2022

	2023	2022	% Change	
Current and Other Assets	\$ 1,433,527	1,089,448	31.58%	\$ 344,079
Capital Assets	36,021,264	35,972,880	0.13%	\$ 48,384
Total Assets	<u>37,454,791</u>	<u>37,062,328</u>	1.06%	\$ 392,463
Current and Other Liabilities	73,029	371,992	-80.37%	\$ (298,963)
Long Term Liabilities	-	16,963	-100.00%	\$ (16,963)
Total Liabilities	<u>73,029</u>	<u>388,955</u>	-81.22%	\$ (315,926)
Net Position				
Net Investment in Capital Assets	35,984,301	35,875,917	0.30%	\$ 108,384
Unrestricted	1,397,461	797,456	-75.24%	\$ 600,005
Total Net Position	<u>\$ 37,381,762</u>	<u>\$ 36,673,373</u>	1.93%	\$ 708,389

Changes In Net Position. The Authority's total revenues decreased \$6,225,372 during the fiscal year. The Authority's primary sources of revenue are appropriations from the Tennessee Department of Transportation for railroad improvements and a lease agreement between the Authority and railroad operator which requires the operator to pay 4% - 6% of gross revenues from freight hauled on the railroad back to the Authority as a lease fee. Revenues from the Department of Transportation in the fiscal year ended June 30, 2023 were \$1,401,110. The total cost of all programs increased by \$63,589

Nashville & Eastern Railroad Authority
Changes in Net Position
June 30, 2023 and 2022

	2023	2022	% Change	
Total Operating Revenues	\$ 2,555,372	8,780,744	-70.90%	\$ (6,225,372)
Total Operating Expenses	1,854,563	1,790,974	3.55%	\$ 63,589
Operating Income/(Deficit)	700,809	6,989,770	89.97%	\$ (6,288,961)
Non-Operating Income	7,580	186	3975.27%	\$ 7,394
Increase/(Decrease) in Net Position	<u>\$ 708,389</u>	<u>\$ 6,989,956</u>	89.87%	\$ (6,281,567)

Capital Assets. As of June 30, 2023, the Organization had invested \$35,984,301 in capital assets net of related debt and accumulated depreciation. The principal capital asset of the Authority is the railroad itself which has been in the process of being upgraded since it was purchased by the Authority in 1986. The Organization's fiscal year 2023 capital budget was increased.

Contacting The Organization's Financial Management

This financial report is designed to provide the citizens, taxpayers, and customers of the Nashville & Eastern Railroad Authority information about the Organization's finances and to demonstrate the Organization's accountability for the money it receives. If you have questions about this report or need additional information, contact the Nashville & Eastern Railroad Authority at 206 South Maple Street, Lebanon, TN 37087.

GOVERNMENT-WIDE STATEMENTS

NASHVILLE & EASTERN RAILROAD AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2023

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 1,092,823
Accounts Receivable - State	26,340
Accounts Receivable - Other	314,364
Total Current Assets	1,433,527
 Property & Equipment (Net of Accumulated Depreciation)	 36,021,264
 Total Assets	 37,454,791
LIABILITIES	
Accounts Payable	\$ 36,066
Current Portion of Long-Term Debt	36,963
Total Current Liabilities	73,029
NET POSITION	
Unrestricted	1,397,461
Net Investment in Capital Assets	35,984,301
 Total Net Position	 \$ 37,381,762

See Accompanying Notes To Financial Statements.

NASHVILLE & EASTERN RAILROAD AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges For Services	Grants and Contributions	
Governmental Activities				
Infrastructure Development	\$ 1,776,649	1,152,162	\$ 1,401,110	\$ 776,623
General & Administrative	74,984	2,100	-	(72,884)
Interest on Long-Term Debt	2,930	-	-	(2,930)
	<u>1,854,563</u>	<u>1,154,262</u>	<u>1,401,110</u>	<u>700,809</u>
General Revenues				
Interest Income				<u>7,580</u>
Change In Net Position				708,389
Net Position - Beginning of Year				36,673,373
Net Position - End of Year				<u><u>\$ 37,381,762</u></u>

See Accompanying Notes To Financial Statements

FUND STATEMENTS

NASHVILLE & EASTERN RAILROAD AUTHORITY
BALANCE SHEET
JUNE 30, 2023

ASSETS

Current Assets	
Cash and Cash Equivalents	\$ 1,092,823
Accounts Receivable - State	26,340
Accounts Receivable - Other	<u>314,364</u>
 Total Current Assets	 <u><u>\$ 1,433,527</u></u>

LIABILITIES AND FUND BALANCE

Current Liabilities	
Accounts Payable	\$ 36,066
Fund Balances	
Unassigned	<u>1,397,461</u>

Total Liabilities, Deferred Inflows & Fund Balance	<u><u>\$ 1,433,527</u></u>	\$	-
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Total Fund Balance Per Fund Financial Statements	\$ 1,397,461
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Reconciliation to the Statement of Net Position:

Fixed assets are not included in the fund financial statements prepared on the modified accrual basis of accounting.	36,021,264
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Long term debt is not included in the fund financial statements prepared on the modified accrual basis of accounting	<u>(36,963)</u>
Net Position	<u><u>\$ 37,381,762</u></u>

NASHVILLE & EASTERN RAILROAD AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2023

Revenues	
RJ Corman	\$ 1,152,162
Grant Revenue	1,401,110
Rent	2,100
Interest Income	<u>7,580</u>
Total Revenues	2,562,952
Expenditures	
Rail Rehabilitation	1,825,034
Audit	6,800
Legal Services	31,743
Administration	28,717
Land Surveys	7,724
Principal Payments on Loans	60,000
Interest Expense	<u>2,929</u>
Total Expenditures	<u>1,962,947</u>
Excess of Revenues over Expenditures	600,005
Fund Balance - Beginning of Year	797,456
Fund Balance - End of Year	<u>\$ 1,397,461</u>
Reconciliation to Statement of Activities:	
Net Change in Fund Balances - Total Governmental Funds	\$ 600,005
Purchases of fixed assets are an expenditure in the governmental funds, but are increases in property and equipment on the statement of net position in the government-wide statements.	1,825,034
Principal payments on long term debt are included as an expense in the governmental funds, but are reductions of long term debt in the statement of net assets in the government-wide statements.	60,000
Change in accrued interest in the statement of activities does not require use of current financial resources and is not reported as an expenditure in governmental funds.	-
Depreciation is not recorded in the fund financial statements but is reported in the government-wide financial statements.	<u>(1,776,650)</u>
Change in net position	<u>\$ 708,389</u>

See Accompanying Notes to Financial Statements

NASHVILLE & EASTERN RAILROAD AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The financial statements present the accounts and operations of the Nashville & Eastern Railroad Authority. The Nashville and Eastern Railroad Authority was created according to an act of the Tennessee Legislature in 1983 to purchase from Seaboard System Railroad, Inc., the property, track, and roadbed along approximately 130 miles in Davidson, Wilson, Smith and Putnam Counties. The business of the Nashville and Eastern Railroad Authority is conducted by a board of directors whose members are appointed by the governing bodies of the cities and counties of service. The Authority's primary revenue source is rehabilitation contracts with the Tennessee Department of Transportation.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the Nashville & Eastern Railroad Authority as a whole. Individual funds are not displayed in the government-wide financial statements and the Organization has only governmental activities supported by government allocations.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Board's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. Other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for the governmental fund.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the Nashville & Eastern Railroad Authority are prepared in accordance with generally accepted accounting principles (GAAP).

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds).

NASHVILLE & EASTERN RAILROAD AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation, Continued

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Nashville & Eastern Railroad Authority considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

The Board's general spending prioritization policy is to consider restricted resources to have been used first, followed by committed, assigned, and unassigned amounts when expenditures have been incurred for which resources in more than one classification could be used.

D. Fund Types and Major Funds

The Nashville & Eastern Railroad Authority reports the following major governmental fund:

General Fund – The General Fund is the general operating fund of the Organization. It is used to account for all financial resources except those required to be accounted for in another fund.

E. Other Significant Policies

Bad Debt - The Nashville & Eastern Railroad Authority has recorded no provision for bad debts as all accounts receivable are considered fully collectible.

F. Recently Adopted Accounting Standards

Effective July 1, 2022, the District implemented GASB 96 "Subscription-Based Information Technology Arrangements" (SBITA). The standard defines a SBITA as "a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.". The standard establishes a single model for SBITA accounting based on the foundational principle that SBITA are financings of the right to use an underlying asset.

NASHVILLE & EASTERN RAILROAD AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

F. Recently Adopted Accounting Standards, Continued

Under the statement, a Subscriber is required to recognize a subscription liability and an intangible right-to-use asset at the commencement of the subscription term. As payments are made, the subscriber reduces the subscription liability and recognizes an outflow of resources, while also amortizing the right-to-use asset in a systematic manner over the shorter of the subscription term or useful life of the underlying asset.

The statement requires retroactive restatement for all prior periods presented, however, it does not require governments to determine what the subscription asset would have been for a subscription in effect as of the date of implementation if the subscription had been initially recognized and amortized in prior periods as a subscription under the provisions of this statement.

The Authority evaluated its subscription in effect as of the effective date and determined that there are none that meet the definition of a SBITA.

NOTE 2 – CASH AND CASH EQUIVALENTS

At June 30, 2023 the bank balance of cash and cash equivalents is \$1,138,455.

Various restrictions on deposits and investments are imposed by state statutes. These restrictions are summarized as follows: All deposits with financial institutions other than savings and loan associations must be collateralized in an amount equal to 105% of the value of the deposit secured thereby. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the Authority. The bank balance at June 30, 2023 was entirely covered by FDIC and the Tennessee Bank Collateral Pool.

Deposits with savings and loan associations must be collateralized by one of the following methods: 1) By an amount equal to 105% of the face amount of uninsured deposits if the collateral is of the same character as that required for other financial institutions; 2) By an irrevocable letter of credit issued by the Federal Home Loan Bank; or, 3) By a surety bond issued by an insurance company licensed under the laws of the State of Tennessee whose claims paying ability is rated in the highest category by at least two nationally recognized statistical rating services. The promissory notes must be in an amount equal to 150% of the amount of uninsured deposits. Nashville & Eastern Railroad Authority had no deposits with savings and loan associations during the period under audit.

NOTE 3 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority has secured fidelity bonds on the officers as disclosed in the accompanying schedule.

NASHVILLE & EASTERN RAILROAD AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 3 – RISK MANAGEMENT, CONTINUED

The lease agreement with Nashville and Eastern Railroad Corporation specified that the Corporation "...shall maintain insurance...in such amounts and covering such risks as is customarily carried by companies engaged in similar...businesses... and cause the Authority to be protected as an additional named insured." There have been no significant reductions in insurance coverage by the Authority. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 4 – LEASES

The Authority originally entered into a ten-year lease, dated August 28, 1986, with Nashville and Eastern Railroad Corporation (NERC) to operate the line and provide appropriate maintenance of the line. The agreement was amended in 2005 and again in 2011, which, among other provisions, extended the term of the agreement until October 31, 2063. Effective with the 2017 calendar billings, the quarterly lease payments are as follows: 4% of the gross freight revenues on the first \$3,795,492.61; 5% between \$3,795,492.62 and \$5,060,656.80; and 6% of operating revenues over \$5,060,656.81. For commuter rail service, the Authority receives 10% of the gross commuter rail track usage or other passenger mileage fees.

Finally, the Nashville and Eastern Railroad Corporation pays to the Authority \$1,250 per month for the use of its maintenance facility in Lebanon beginning in January 2005 and \$700 per month for the use of its storage facility beginning July 2012. Subsequent to 6/30/18, the Nashville and Eastern Railroad Corporation was sold to the R.J. Corman Railroad Company. R.J. Corman Railroad Company will be assuming all of NERC obligations including the lease agreement to 2063. Revenues from the leases totaled \$552,017 for the year ended June 30, 2023.

The Authority leases a piece of property purchased in a prior fiscal year under a month to month lease. Revenues from this lease amounted to \$900 for the year ended June 30, 2023.

At June 30, 2023, the Authority had a receivable related to these leases in the amount of \$314,364.

NOTE 5 – CONTRACTS & GRANTS

FEDERAL RAILROAD ADMINISTRATION (F.R.A.) – The FRA grant is an agreement between the State of Tennessee, acting through its Department of Transportation and the Authority. Funds provided from FRA grants are to be used for further rehabilitation work along the branchline. The payments create a contingent interest in the branchline for the State of Tennessee. If the Authority sells, abandons, or disposes of the branchline, they shall repay to the State the federal share as determined in accordance with attachment N to OMB Circular No. A102. The Authority received no federal funds for the year ended June 30, 2023.

NASHVILLE & EASTERN RAILROAD AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 5 – CONTRACTS & GRANTS, CONTINUED

TENNESSEE DEPARTMENT OF TRANSPORTATION - The Tennessee Department of Transportation (T.D.O.T.) has contracted with the Authority to provide funds to purchase, rehabilitate, and maintain the line. In the event of disposition of the branchline the Authority shall return to the State a portion of the sales price or the appraised value, whichever is applicable, which is in proportion to the State's prorata share of the total purchase price plus the total rehabilitation expenditures prior to the date of the sales. The Authority received \$1,401,110 from TDOT for the year ended June 30, 2023, which included a one-time grant in the amount of \$8,209,913 to pay off the USDA loan. Unearned grant revenues at June 30, 2023 are \$-. This represents amounts received in prior years under State grant GG-10-33918-00 that were used to fund the 2010 flood repairs until the FEMA grant money was received. Since the FEMA money was received, the State funding received in prior years will now be used to fund future rail rehabilitation projects as directed by the State. This is reported in the financial statements as a current liability.

NOTE 6 – FIXED ASSETS

In the government-wide financial statements, fixed assets are recorded at cost and depreciated over their estimated useful lives. Office equipment is generally depreciated over 5 years, furniture and fixtures over 7 years, leasehold improvements over 30 years, and improvements to the railroad over 40 years using the straight line method.

A summary of fixed assets for the fiscal year ended June 30, 2023 is presented below:

	<u>Balance July 1, 2022</u>	<u>Additions (Deductions)</u>	<u>Balance June 30, 2023</u>
<u>Nondepreciable Assets</u>			
Land	\$ 499,666	\$ -	\$ 499,666
Total Nondepreciable Assets	499,666	-	499,666
<u>Depreciable Assets</u>			
Buildings	1,068,580	-	1,068,580
Branchline and Right of Way	1,820,143	-	1,820,143
Rail Rehabilitation	67,423,490	1,825,034	69,248,524
	<u>70,811,879</u>	<u>1,825,034</u>	<u>72,636,913</u>
<u>Accumulated Depreciation</u>			
Buildings	530,314	26,714	557,028
Branchline and Right of Way	1,740,648	25,000	1,765,648
Rail Rehabilitation	32,568,038	1,724,935	34,292,973
	<u>34,839,000</u>	<u>1,776,649</u>	<u>36,615,649</u>
Capital Assets, Net	<u>\$ 35,972,879</u>	<u>\$ 48,385</u>	<u>\$ 36,021,264</u>

Depreciation expense for the fiscal year ended June 30, 2023 was \$1,776,649.

NASHVILLE & EASTERN RAILROAD AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 7 – COMMUTER RAIL

The Regional Transportation Authority was approved by the U.S. House of Representatives for a grant from the Federal Transit Administration to cover 80% of the cost of construction of the first leg of a commuter rail system which would link the cities of Nashville, Mt. Juliet, Lebanon, Gallatin, Hendersonville, Lavergne, Smyrna, Murfreesboro, Franklin, and Kingston Springs. Construction on the commuter rail project to bring the railroad up to FRA Class III Safety Standards and link the cities of Lebanon, Mt. Juliet and Nashville began during the fiscal year ended June 30, 2005. The Authority has agreed to fund up to \$2.5 million (10%) of the cost of this upgrade and established a line of credit with First Tennessee Bank in that amount in order to assist with the commuter rail project.

Nashville and other local governments will share in the remaining 10% of the cost of the project.

Construction on the commuter rail project was completed during the fiscal year ended June 30, 2007. Those improvements have been capitalized in the government-wide financial statements of the Nashville & Eastern Railroad Authority and are being depreciated over an estimated useful life of 40 years. The commuter rail system comes as an improvement to the Authority's already existing railroad assets. Commuter rail could significantly increase the amount of funds received by NERA from their share of operating revenues of the railroad under the lease described in Note 4.

NOTE 8 - BUDGET TO ACTUAL

Only general budget information is available. Each year the rehabilitation, maintenance, and expansion of the branchline is contracted between the Tennessee Department of Transportation, the Nashville and Eastern Railroad Authority, and RJ Corman. However, there is a three-year window in which the work specified in the contract must be completed or the funding for that project will lapse. The Authority uses the contract amounts to monitor actual results with the amounts budgeted for the individual contracts. However, there is no budget prepared for each individual fiscal year.

NOTE 9 – NOTES PAYABLE

As mentioned in note 7, the Nashville & Eastern Railroad Authority established a line of credit with First Tennessee Bank in the amount of \$2.5 million to fund 10% of the cost of the first stage of the commuter rail program. At June 30, 2023, the Authority had an outstanding balance of \$36,963 on that line which was used to fund the commuter rail costs. On July 16, 2017, the Authority entered into a Second Amended and Restated Promissory Note ("Note") with First Tennessee Bank National Association. In this Note, the amount the Authority owed to First Tennessee was \$509,592. This Note shall mature on the earlier of: (a) July 15, 2018; or (b) the date on which the unpaid amount of this Note has been declared or automatically has become due and payable, whether by acceleration or otherwise. The Note defines that all principal outstanding hereunder shall earn interest at a fixed rate of interest equal to 5.05% per annum.

NASHVILLE & EASTERN RAILROAD AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2023

NOTE 9 – NOTES PAYABLE, CONTINUED

This Note shall be repaid as follows: (a) commencing September 30, 2017, and on the last day of each quarter thereafter through July 15, 2018, the Authority shall pay to First Tennessee a principal payment of \$16,990, plus accrued interest outstanding as of quarter-end. On July 19, 2018, the Authority entered into a Third Amended and Restated Promissory Note (“Note”) with First Tennessee Bank National Association. In this Note, the amount the Authority owed to First Tennessee was \$441,622. The Authority had a principal pay down of \$25,000 for the Lender to accept the Note. This Note shall mature on the earlier of: (a) July 15, 2020; or (b) the date on which the unpaid amount of this Note has been declared or automatically has become due and payable, whether by acceleration or otherwise. The Note defines that all principal outstanding hereunder shall earn interest at a fixed rate of interest equal to 5.00% per annum.

This Note shall be repaid as follows: (a) commencing September 30, 2018, and on the last day of each quarter thereafter through July 15, 2020, the Authority shall pay to First Tennessee a principal payment of \$20,000, plus accrued interest outstanding as of quarter-end.

In June 2020, the authority entered into the Fourth Amended and Restated Promissory Note (Note) with First Horizon Bank (formerly doing business as First Tennessee Bank National Association). In this note, the Authority owed to First Horizon Bank \$277,063, plus interest, costs and expenses. The note requires a principal pay-down of \$23,526 plus repayments as follows: (a) Commencing July 15, 2020 and on the last day of each quarter thereafter through September 30, 2023, the Authority shall pay to First Horizon a principal payments of \$20,000 plus accrued interest, at 5% per annum, outstanding as of quarter-end and (b) on the maturity date, the Authority shall pay to First Horizon an amount equal to all outstanding principal plus all accrued and unpaid interest plus all other amounts due.

Principal maturities over the life of the loan are scheduled as follows:

	Principal	Interest
2024	36,963	213

The Nashville & Eastern Railroad Authority made three payments during the fiscal year ended June 30, 2023.

Long term liability for the year ended June 30, 2023 was as follows:

	Balance	Additions	Reductions	Balance	Within 1 Year
First Tennessee Ban	\$ 96,963	\$ -	\$ (60,000)	\$ 36,963	\$ 36,963

INTERNAL CONTROL AND COMPLIANCE SECTION

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*

To the Board of Directors
Nashville & Eastern Railroad Authority

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 the major fund of Nashville & Eastern Railroad Authority, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Nashville & Eastern Railroad Authority's basic financial statements and have issued our report thereon dated March 20, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Nashville & Eastern Railroad Authority's internal control over financial reporting (internal control) as a basis for designing 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 Nashville & Eastern Railroad Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Nashville & Eastern Railroad 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 and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2023-001 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Nashville & Eastern Railroad 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 financial statements. 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*.

Nashville & Eastern Railroad Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Nashville & Eastern Railroad Authority's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Nashville & Eastern Railroad Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 results 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.



Lebanon, TN
March 20, 2024

NASHVILLE & EASTERN RAILROAD AUTHORITY
SCHEDULE OF FINDINGS & RESPONSES
JUNE 30, 2023

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of Nashville & Eastern Railroad Authority.
2. One significant deficiency disclosed during the audit of the financial statements is reported in the Report on Internal Control over Financial Reporting and on Compliance & Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

B. SIGNIFICANT DEFICIENCIES

2023-001 Personnel Cannot Prepare GAAP Financial Statements

Condition: The Nashville & Eastern Railroad Authority does not have personnel with the training and experience to prepare financial statements in accordance with generally accepted accounting principles.

Criteria: The client should have controls which would prevent or detect material misstatements in the audited financial statements.

Effect: The inability to prepare financial statements in accordance with generally accepted accounting principles allows the possibility that personnel would not be able to prevent or detect material misstatements in the audited financial statements.

Recommendation: The Board should continue to closely monitor the financial report provided by the Treasurer and should consider adding additional expertise.

Response: The Nashville & Eastern Railroad Authority does simple accounting utilizing Quickbooks and one general fund which is basically checkbook accounting with the ability to categorize all areas of receipts and expenditures as necessary. The Nashville & Eastern Railroad Authority feels the expense to add additional expertise is unnecessary, due to the low volume of accounting transactions. A cost/benefit ratio would never rise to a positive level and we have never experienced any major accounting deficiencies in our adopted procedures.

NASHVILLE & EASTERN RAILROAD AUTHORITY
SCHEDULE OF DISPOSITION OF PRIOR YEAR FINDINGS & RESPONSES
JUNE 30, 2023

Prior Year Finding Number: 2022-001

Original Finding Number: 2007-001

Finding Title: Personnel Cannot Prepare GAAP Financial Statements

Status/Current Year Finding Number: Repeated/2023-001



NASHVILLE & EASTERN RAILROAD AUTHORITY
MANAGEMENT'S CORRECTIVE ACTION PLAN
JUNE 30, 2023

2023-001 Personnel Cannot Prepare GAAP Financial Statements

Name of Contact Person: J. Randy Ryan, Managing Director

Corrective Action: None planned at this time. The Board reviews the financial report presented by the Treasurer at every meeting. Additional expertise would require additional costs for personnel. As management and the Board feel that the additional cost outweighs the benefits, no corrective action is planned at this time.

Proposed Completion Date: None

A handwritten signature in black ink, appearing to read "J. Randy Ryan", is written over a horizontal line.

J. Randy Ryan, Managing Director

FUND STATEMENTS

Nashville & Eastern Railroad Authority
Schedule of Federal Awards and State Financial Assistance
June 30, 2023

Federal Agency/Pass Through Agency/ State Program Title	Program/Cluster Name	Pass Through Entity Identifying Number	Pass through to Subrecipients	Expenditures
State Financial Assistance:				
TN Department of Transportation	Railroad Track Rehab	GG-10-33918-00	\$ -	\$ 262,726
TN Department of Transportation	Railroad Bridge Repair	Z-22-RR22-14	-	408,855
TN Department of Transportation	Railroad Track Rehab	Z-22-RR22-15	-	1,218,560
				<u>\$ 1,890,141</u>

See Accompanying Notes to Financial Statements

NASHVILLE & EASTERN RAILROAD AUTHORITY
SCHEDULE OF FIDELITY BONDS
OF PRINCIPAL OFFICIALS (UNAUDITED)
JUNE 30, 2023

<u>Official</u>	<u>Title</u>	<u>Bond</u>
Mike Jennings	Chairman	\$200,000
Dr. Charles Womack	Vice-Chairman	\$200,000
Sam Hatcher	Treasurer	\$200,000
Michael Nesbitt	Secretary	\$200,000
Randy Ryan	Managing Director	\$200,000

See Accompanying Notes to Financial Statements

NASHVILLE & EASTERN RAILROAD AUTHORITY
 SCHEDULE OF CHANGES IN LONG-TERM DEBT BY INDIVIDUAL ISSUE
 JUNE 30, 2023

Description of Indebtedness	Original Amount at Issue	Interest Rate In Effect as of June 30, 2023	Date of Issue	Final Maturity Date	Outstanding July 01, 2022	Paid and/or Matured During Period	Refunded During Period	Outstanding June 30, 2023
First Horizon	\$ 2,500,000	5.00%	12/3/2004	9/30/2023	\$ 96,963	\$ (60,000)	-	\$ 36,963