

**SOUTH CENTRAL TENNESSEE
RAILROAD AUTHORITY**

Financial Statements

For the Year Ended
June 30, 2012

SOUTH CENTRAL TENNESSEE RAILROAD AUTHORITY

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INTRODUCTORY SECTION

2012 Board of Directors
SOUTH CENTRAL TENNESSEE RAILROAD AUTHORITY

DICKSON COUNTY

Bob Rial, County Mayor
P. O. Box 220
Charlotte TN 37036

Don L. Weiss, Jr. Mayor
City Hall
600 East Walnut Street
Dickson TN 37055

Rydell Wesson
600 East Walnut Street
Dickson TN 37055

David Hamilton
119 Hwy. 70E
Dickson TN 37055

HICKMAN COUNTY

Bob Bohn, Mayor
P O Box 238
Centerville Tn 37033

Steve Gregory County Mayor
No. 5 Public Square
Centerville TN 37033

Mickey Bunn
5744 Washer Road
Lyles TN 37098

LEWIS COUNTY

Ronnie James
115 Slippery Rd.
Hohenwald TN 38462

Van Ward County Mayor
110 N Park St. Room 108
Hohenwald Tn 38462

Johnny Clayton, Mayor
City of Hohenwald
P. O. Box 40
Hohenwald Tn 38462

Landis Turner
107 Leslie Lane
Hohenwald TN 38462

PERRY COUNTY

John Carroll County Mayor
P. O. Box 16
Linden TN 37096

David Trull
79 Highway 100
Linden TN 37096

Jim C. Azbill, Mayor
City Hall
P. O. Box 46
Linden Tn 37096

Norman Brown
c/o Jim Azbill
P. O. Box 46
Linden TN 37096

WAYNE COUNTY

Robert Vencion Mayor
City of Waynesboro
P. O. Box 471
Waynesboro TN 38485

John Hickman, City Manager
City of Waynesboro
P. O. Box 471
Waynesboro TN 38485

Jason Rich, County Mayor
P. O. Box 848
Waynesboro TN 38485

Rena Purdy
Chamber of Commerce
P. O. Box 574
Waynesboro TN 38485

FINANCIAL SECTION

JOHN R. POOLE, CPA
CERTIFIED PUBLIC ACCOUNTANT

134 NORTHLAKE DRIVE
HENDERSONVILLE, TN 37075

(615) 822-4177

INDEPENDENT AUDITORS' REPORT

Board of Directors
South Central Tennessee Railroad Authority
Hohenwald, Tennessee

I have audited the accompanying financial statements of South Central Tennessee Railroad Authority as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of South Central Tennessee Railroad Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted the 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that the audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Central Tennessee Railroad Authority as of June 30, 2012, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued the report dated September 30, 2012, on my consideration of South Central Tennessee Railroad Authority's internal control over financial reporting and the test 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 the testing of internal control over financial reporting and compliance and the results of the testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of the audit.

Accounting principles generally accepted in the United States of America require that the Required Supplementary Information which includes the Management's Discussion and Analysis 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. I have applied certain limited procedures to the required supplementary information including the Management's Discussion and Analysis in accordance with auditing standards generally accepted in the United State 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 my inquiries, the basic financial statements and other knowledge we obtained during the audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

The audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Introductory Section and the Supplementary Information, 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. The accompanying schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The Introductory Section and the Supplementary Information have 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 State of America. In our opinion, the Introductory Section and the Supplementary Information, is fairly stated in all material respects in relation to the basic financial statements as a whole.

John R Poole, CPA

September 30, 2012

South Central Tennessee Railroad Authority

Management's Discussion and Analysis

As management of the South Central Tennessee Railroad Authority, (the Railroad Authority) we offer readers of the Railroad Authority's financial statements this narrative overview and analysis of the financial activities of the Railroad Authority for the fiscal year ended June 30, 2012. The analysis focuses on significant financial position, revenues and expenses and specific issues related to funds and the economic factors affecting the Railroad Authority. Management's Discussion and Analysis (MD&A) focuses on current year activities and resulting changes.

Financial Highlights:

The assets of the South Central Tennessee Railroad Authority exceeded its liabilities at the close of the most recent fiscal year by \$5,031,219. Of this amount, \$716,064 (unrestricted net assets) may be used to meet the Railroad Authority's ongoing obligations.

The Railroad Authority's total net assets increased by \$2,137,941 during the current year, primarily as a result of higher government grants used to assist in the improvement and rehabilitation of the Railroad Authority tracks. Grant revenues were \$1,677,573 more than in the prior year due to increased grants activity. Operating expenses were \$336,132 less in the current year due to lower rehabilitation activity.

Overview of the Financial Statements:

The Statement of Net Assets presents information on all the Railroad Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Railroad Authority is improving or deteriorating.

The Statement of Activities presents information showing how the Railroad Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The basic financial statements can be found on pages 8-10 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 11-16 of this report.

Financial Analysis of the Financial Statements

As noted earlier, net assets may serve over time as a useful indicator of the Railroad Authority's financial position. In the case of the South Central Tennessee Railroad Authority, assets exceeded liabilities by \$5,031,219 at the close of the most recent fiscal year. By far the largest portion of the Railroad Authority's assets reflects its investment in capital assets. The Railroad Authority uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending.

South Central Tennessee Railroad Authority's Net Assets - 2012

Current assets	\$ 1,179,142
Other assets	27,929
Capital assets, net	<u>4,315,155</u>
Total assets	<u>5,522,226</u>
Current liabilities	<u>491,007</u>
Net assets:	
Invested in capital assets,	4,315,155
Unrestricted	<u>716,064</u>
Total net assets	\$ <u>5,031,219</u>

South Central Tennessee Railroad Authority's Net Assets - 2011

Current assets	\$ 796,285
Other assets	27,929
Capital assets, net	<u>2,192,908</u>
Total assets	<u>3,017,122</u>
Current liabilities	<u>123,844</u>
Net assets:	
Invested in capital assets,	2,192,908
Unrestricted	<u>700,370</u>
Total net assets	\$ <u>2,893,278</u>

At the end to the current fiscal year, the Railroad Authority is able to report positive balances in all categories of net assets.

Capital Asset

The South Central Tennessee Railroad Authority's investment in capital assets at June 30, 2012, amounts to \$4,315,155 (net of accumulated depreciation). This investment in capital assets is in railroad tracks, land, buildings and computer software.

South Central Tennessee Railroad Authority's Capital Assets

	<u>2011</u>	<u>2012</u>
Constructed tracks	\$ 2,282,920	2,282,920
Construction in progress	-	2,181,320
Land and improvements	110,418	108,418
Trackworks donated by Dickson County	1,015,790	1,015,790
Building and site improvements	<u>9,930</u>	<u>9,930</u>
Total	3,419,058	5,598,378
Less accumulated depreciation	<u>(1,226,150)</u>	<u>(1,283,223)</u>
Net Capital Assets	\$ <u>2,192,908</u>	<u>4,315,155</u>

Additional information on the South Central Tennessee Railroad Authority's capital assets can be found in the notes to the financial statements section of this report.

The Railroad Authority's total net assets increased by \$2,137,941 during the current year, primarily as a result of higher government grants used to assist in the improvement and rehabilitation of the Railroad Authority tracks. Grant revenues were \$1,677,573 more than in the prior year due to increased grants activity. Operating expenses were \$336,132 less in the current year due to lower rehabilitation activity.

Comparison of Revenues and Expenses 2012 and 2011

	2012	2011	Variance
Operating Revenues:			
Leasing revenues	17,810	17,300	510
Total Operating Revenues	<u>17,810</u>	<u>17,300</u>	<u>510</u>
Operating Expenses:			
Administrative and attorney fees	4,775	12,235	(7,460)
Professional services	0	4,455	(4,455)
Personnel costs	6,165	7,392	(1,227)
Depreciation	57,073	137,907	(80,834)
Industrial development	20,765	15,253	5,512
Insurance	794	848	(54)
Office supplies	5,556	4,697	859
Rehabilitation expense	538,773	787,522	(248,749)
Miscellaneous expenses	2,781	2,505	276
Total Operating Expenses	<u>636,682</u>	<u>972,814</u>	<u>(336,132)</u>
Operating income (loss)	<u>(618,872)</u>	<u>(955,514)</u>	<u>336,642</u>
Nonoperating Revenues			
Grant contributions	2,729,174	1,051,601	1,677,573
Gain on sale of assets	16,350	0	16,350
Interest expense	0	(10,821)	10,821
Interest income	11,289	6,322	4,967
Total Nonoperating Revenues	<u>2,756,813</u>	<u>1,047,102</u>	<u>1,709,711</u>
Net change in net assets	2,137,941	91,588	2,046,353

Requests for Information

This financial report is designed to provide a general overview of the Railroad Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

South Central Tennessee Railroad Authority

FINANCIAL STATEMENTS

SOUTH CENTRAL TENNESSEE RAILROAD AUTHORITY

Statement of Net Assets

June 30, 2012

Assets

Current Assets:

Cash and cash equivalents	\$55,293
Certificate of deposits	622,392
Grants receivable	491,007
Account receivable	10,450
Total Current Assets	<u>1,179,142</u>

Capital Assets:

Land and improvements	108,418
Construction in progress	2,181,320
Trackworks	3,298,710
Building and site improvement	9,930
Less accumulated depreciation	<u>(1,283,223)</u>
Total Capital Assets, Net	<u>4,315,155</u>

Interest receivable on capital lease option 27,929

Total Assets \$5,522,226

Liabilities and Net Assets

Current Liabilities

Accounts payable	491,007
Total Current Liabilities	<u>491,007</u>

Net Assets:

Unrestricted	716,064
Invested in capital assets	<u>4,315,155</u>
Total Net Assets	<u>5,031,219</u>

Total Liabilities and Net Assets \$5,522,226

The accompanying notes are an integral part of these financial statements.

SOUTH CENTRAL TENNESSEE RAILROAD AUTHORITY

Statement of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30, 2012

Operating Revenues:	
Leasing revenues	17,810
Total Operating Revenues	<u>17,810</u>
Operating Expenses:	
Administrative and attorney fees	4,775
Personnel costs	6,165
Telephone	2,883
Depreciation	57,073
Insurance	794
Dues and donations	20,765
Office supplies	2,673
Rehabilitation expense	538,773
Miscellaneous expenses	2,781
Total Operating Expenses	<u>636,682</u>
Operating income (loss)	<u>(618,872)</u>
Nonoperating Revenues (Expenses):	
Grant contributions	2,729,174
Gain on sale of land	16,350
Interest income	11,289
Total Nonoperating Revenues (Expenses)	<u>2,756,813</u>
Net change in net assets	2,137,941
Net assets, June 30, 2011	<u>2,893,278</u>
Net assets, June 30, 2012	<u><u>\$5,031,219</u></u>

The accompanying notes are an integral part of these financial statements.

SOUTH CENTRAL TENNESSEE RAILROAD AUTHORITY

Statement of Cash Flows

For the Year Ending June 30, 2012

Cash Flows from Operating Activities:	
Cash received from customers	\$17,810
Cash paid to suppliers	(581,302)
Net Cash Provided by Operating Activities	<u>(563,492)</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of capital assets	(2,181,320)
Proceeds from sale of assets	18,350
Grant contributions received	2,729,174
Net Cash Provided by Capital and Related Financing Activities	<u>566,204</u>
Cash Flows from Investing Activities:	
Redemption (purchase) of certificate of deposit	(107,262)
Interest received	11,289
Net Cash From Investing Activities	<u>(95,973)</u>
Net Increase in Cash	(93,261)
Cash and Cash Equivalents, June 30, 2011	<u>148,554</u>
Cash and Cash Equivalents, June 30, 2012	<u><u>\$55,293</u></u>

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating income (loss)	(\$618,872)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	57,073
Change in assets (increase) decrease:	
Grants and accounts receivable	(368,856)
Change in liabilities increase (decrease):	
Accounts payable	<u>367,163</u>
Net Cash Provided by Operating Activities	<u><u>(\$563,492)</u></u>

The accompanying notes are an integral part of these financial statements.

South Central Tennessee Railroad Authority

Notes to Financial Statements

June 30, 2012

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION AND OPERATION

The South Central Tennessee Railroad Authority (Railroad Authority) is a public corporation created under the authority of Chapter 479 of Public Articles of the Tennessee Code 1977. The Railroad Authority was created to take responsibility for the continued operation of a short line railroad running through Dickson, Hickman and Lewis Counties, Tennessee, formerly known as the Louisville and Nashville Railroad Company-Colesburg to Hohenwald Branch Line, after the L & N Railroad Company decided to abandon the line subsequent to federal deregulation of railroad operations. The continued operation of this rail line was, and is, crucial to the economic health of that section of the state.

The Railroad Authority is governed by a 20 person board of directors made up of 2 persons from each of the cities and counties belonging to the Railroad Authority. The counties are Dickson, Lewis, Hickman, Perry and Wayne; the cities are Dickson, Hohenwald, Centerville, Linden and Waynesboro.

The branch line was acquired from the L & N Railroad Company at a cost of \$350,000. The purchase price was supplied by loans from the Tennessee Valley Authority and various local government loans. All of these loans have been repaid.

The South Central Tennessee Railroad Authority, one of thirteen such authorities set up in Tennessee to operate lines that would have otherwise been abandoned, was given authority to contract with a private company to actually operate the rail line. The South Central Tennessee Railroad Authority contracted with the SCTRR, LLC (Railroad Company) for the operation of the rail line.

B. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The Railroad Authority operates as an enterprise fund and utilizes the accrual basis of accounting. Income is recorded when earned and expenses are recorded when incurred, rather than when received and paid.

Fixed Assets and Depreciation - With the exception of land and appurtenances received by donation from Dickson County in March 2002, the Railroad Company has leased the rail line, originally acquired from the Louisville and Nashville (L & N) Railroad Company, under contract provisions that meet the criteria for a lease-purchase arrangement. The originally acquired rail line, track and right-of-way assets are listed on the Railroad Company's books of record. The Railroad Authority owns a building on the rail line right-of-way that is being leased. The building is used for office and storage of equipment and materials. The building is recorded at cost of construction, plus capitalized site improvements. The capitalized site improvements were added to the building cost because the underlying land is an asset of the Railroad Company under the terms of the capital lease. The depreciation period is based on the original lease period of ten years plus the renewal period of five years. In addition, the Railroad Authority owns computerized track software which is fully depreciated; it had been depreciated over a three-year life. At the time of the original purchase of the railroad assets for L & N, L & N owned a number of parcels of real estate contiguous to the rail line right of way. The original purchase agreement did not include the additional tracts of land. However, at the time original purchase, the Railroad Authority obtained an option to purchase those amounts at \$1 more than anyone else might offer. The Railroad Authority has subsequently purchased some of these parcels. These land purchases are not included in the lease purchase arrangement discussed above.

South Central Tennessee Railroad Authority

Notes to Financial Statements

June 30, 2012

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents - For the purposes of the statement of cash flows, the Railroad Authority's cash and cash equivalents consist of cash held in checking accounts. The Railroad Authority also holds certificates of deposit. These certificates are not considered cash equivalents because of the length of the maturity dates and the fact that there is an interest penalty on early withdrawal of funds from these accounts. The face value and carrying value of the certificates are virtually the same.

Allowance for Doubtful Accounts - The receivables shown on the balance sheet are presented at face value because of the nature and source of the receivables.

Budgeting - The Railroad Authority is not required to prepare a budget and does not do so.

Accounting Standards Board Pronouncements - Proprietary funds have the option of consistently following or electing not to consistently follow Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989. No action has been taken by the board, thus, by default the board has elected not to follow the FASB pronouncements.

Capital Interest - Interest costs are capitalized when incurred on debt where proceeds were used to finance the construction of assets. The Authority does not have any capitalized interest.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Note 2 - CASH AND CERTIFICATE OF DEPOSITS

The Authority is authorized to invest funds in financial institutions and direct obligations of the Federal Government. During the year, the Authority invested funds that were not immediately needed in certificate of deposits and savings accounts. Deposits in financial institutions are required by State Statute to be secured and collateralized by the institutions. The Authority has deposit policies to minimize custodial credit risks. The collateral must meet certain requirements and be deposited in an escrow account in a second bank for the benefit of the Authority and must total a minimum of 105% of the value of the deposits placed in the institutions less the amount protected by federal depository insurance. The Authority's deposits with financial institutions are fully insured and collateralized.

South Central Tennessee Railroad Authority

Notes to Financial Statements

June 30, 2012

Note 3 - CAPITAL ASSETS IN SERVICE

A summary of changes in capital assets in service is as follows:

Assets not being depreciated	Balance <u>6-30-11</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>6-30-12</u>
Land	\$ 110,418	-	2,000	108,418
Construction in progress	-	2,181,320	-	2,181,320
Asset that are being depreciated				
	Balance <u>6-30-11</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>6-30-12</u>
Building	9,930	-	-	9,930
Trackworks	<u>3,298,710</u>	<u>-</u>	<u>-</u>	<u>3,298,710</u>
	3,308,640	-	-	3,308,640
Less accumulated depreciation	<u>1,226,150</u>			<u>1,283,223</u>
Capital assets - net	<u>\$ 2,192,908</u>			<u>4,315,155</u>

Depreciation expense for the current year was \$57,073. The accumulated depreciation is comprised of Building \$9,930 and Track works \$1,273,293.

Note 4 - CAPITAL LEASE

In 1984, TVA attorneys drafted a contract between the Railroad Authority and the Railroad Company in the form of a lease-purchase arrangement such that the Railroad Company would pay an amount equivalent to the original purchase price of the railroad to the Railroad Authority over a period of 14 years. At the end of the lease period the Railroad Company was to have the sole option to purchase the railroad from the Railroad Authority for a nominal amount plus an amount equal to the interest paid to TVA over the period of the lease. Subsequent to the TVA loan liquidation in July 1992, the total amount of interest paid to TVA was determined to be \$27,929.

On August 21, 1997 a new agreement was entered into by the Railroad Authority and the Railroad Company which superseded all prior agreements. Although finally negotiated in August 1997, the agreement is retroactive to February 1, 1997. This agreement is for an initial period of seven years and renewable for an additional seven years. Under this agreement, the Railroad Company did not formally exercise its option, but renegotiated the option. The new option can be exercised for \$1 plus an amount not to exceed \$27,929 which represents interest paid by the Authority to TVA as interest for the original purchase.

South Central Tennessee Railroad Authority

Notes to Financial Statements

June 30, 2012

Note 4 - CAPITAL LEASE, continued

Under the terms of the agreement, the Railroad Company is to pay the Railroad Authority a monthly lease payment of \$1,400 or \$16,800 annually. During the term of this agreement, the Railroad Company gained the right to negotiate all new and renewal leases with third parties. The Railroad Company will retain all lease payments negotiated with third parties.

The monthly lease as of June 30, 2012 is \$1,400 per month. The Railroad Authority received total lease payments of \$17,800 for the year ended June 30, 2012.

The agreement is structured so that it can be terminated by either party, with notice, in the event that payments received from the state of Tennessee (through the TN Department of Transportation) fall below \$429,134 or by non-performance of the contract by either party. Total grant revenue for the fiscal year ending June 30, 2012 was \$2,729,174.

NOTE 5 - ACQUISITION OF LAND AND TRACK FROM DICKSON COUNTY

In March 2002, the Dickson County Government conveyed to the Railroad Authority land and track with a fair market value of \$1,114,949 for \$1.00. This land, improvements and appurtenances is now held by the Railroad Authority in fee simple, unencumbered in any fashion. The land was acquired by the Dickson County Government in 1998 for \$74,159. The project required wetland mitigation work that cost the county another \$25,000. Track work was installed at a cost of \$1,015,790. Total fair market value for the land and improvements donated was estimated to be \$1,114,949 at the time of donation.

NOTE 6 - LEASE OF BUILDING CONSTRUCTED ON RAILROAD RIGHT-OF-WAY

For several years, the Koppers Company leased land in downtown Hohenwald for a railroad tie storage yard. The Authority's Board of Directors believed that this downtown land could be used more productively. As an inducement to the Koppers Company, the board agreed to build a building outside of town on another piece of railroad right of way. Koppers agreed to lease the building for the cost of the building, \$9,872. The agreement called for this amount to be paid in equal payments over a ten-year period. At the end of the initial lease period, the provisions call for a renewal period in which the lessee will pay an annual fee of \$500 for the succeeding five year period. The lease specifically states that the building is to remain titled to the Railroad Authority and contains no purchase option.

South Central Tennessee Railroad Authority

Notes to Financial Statements

June 30, 2012

NOTE 7. REHABILITATION & EXPANSION GRANTS FROM THE TN DEPARTMENT OF TRANSPORTATION & US DEPARTMENT OF AGRICULTURE-RURAL DEVELOPMENT

In accordance with agreements between the Railroad Authority and the Railroad Company, the Railroad Authority contracted with the Tennessee Department of Transportation (TDOT) for rehabilitation grants to maintain and improve the rail line. There was also a similar type of contract with the U S Department of Agriculture through its Rural Development Program which has been used to do surveying and some land acquisition for the replacement of trestles on the Duck River and at Trestle Hollow. Near the end of the fiscal year the County of Dickson received a grant from the U S Department of Commerce for the construction of rail track extension in the Dickson County Industrial Park. At the completion of the project, Dickson County will convey the right of way on this project to the Railroad Authority.

The Railroad Authority contracts with various companies, including the Railroad Company, to perform the rail line maintenance, repairs and improvements. The Railroad Authority also contracts with an engineering firm which inspects the work under contract. The Railroad Authority submits these invoices (construction and engineering) to TDOT for reimbursement. After inspection of the work by TDOT, The Authority receives payment from the appropriate contract. The Authority, in turn, reimburse the engineers and construction contractors. Grantor contributions include amounts for grant administration which are not included in the rehabilitation expenditures. Matching requirements for the grant are supplies either by repairs the Railroad Company has already made at its own expense in the past, according to Credit Pool contracts with TDOT or from current expenditures. Included in the rehabilitation expenditures are fees paid to engineering personnel to verify contract performance. These engineering services and grants are included in the rehabilitation and grantor contribution totals.

All TDOT contracts contain a clause regarding disposition of real property which states that the Railroad Authority or Railroad Company cannot dispose of any real property without prior written consent of TDOT. Should TDOT agree to a disposition of real property, a portion of the sales proceeds will revert to TDOT in relation to the total of the state's contribution to the purchase, rehabilitation and improvements to the total amount spent thereon from September 6, 1977 to the date of disposition.

TDOT contracts entered into during the fiscal year have additional requirements. The new contracts require that the Authority must maintain the track works for a minimum of 5 years after completion of the contract. The new contracts also contain a clause that allows TDOT to cancel contracts after a 30 day written notice. Further the state will assume responsibility only for work completed by the termination date. Said termination is not to be considered a breach of contract and the State cannot be held liable for services that have not been rendered. The new contracts also contain various other new terms that are less material to the contract.

NOTE 8 - REAL ESTATE TRANSFER

The Railroad Authority conveyed by quitclaim deed a parcel of property to the Lewis County Historical Society on October 1, 1997. The property located in downtown Hohenwald was acquired by the Railroad Authority from the L & N Railroad in May 1981. The Historical Society's consideration given for the property was \$1.00. A clause in the deed indicates that if no significant construction on a new museum facility has begun by October 1, 2004, the property shall revert to the grantor. The Board of Directors has conveyed the deed to the grantor during the year.

The conveyance did not trigger the contractual refund to the Tennessee Department of Transportation as neither piece of property was used for railroad purposes and no rehabilitation funds has been spent on either parcel of land.

South Central Tennessee Railroad Authority

Notes to Financial Statements

June 30, 2012

NOTE 9 - ECONOMIC DEPENDENCY & CREDIT RISK

The Railroad Authority receives most of its revenues from the Tennessee Department of Transportation (TDOT). The next largest source of revenues is the lease agreement with the Railroad Company. In addition to being primarily dependent on TDOT fees, the lease contract with the Railroad Company is subject to cancellation if the grants from TDOT drop below \$429,134.

NOTE 10 - RISK FINANCING AND RELATED INSURANCE

The Railroad Authority carries a \$500,000 fidelity bond to cover criminal losses to the Railroad Authority cash. The Railroad Company, which leases the railroad operations from the Railroad Authority, provides the Railroad Authority with a certificate of liability insurance in the amount of \$10,000,000. There have been no settlements in excess of coverage in any of the three prior fiscal years.

NOTE 11 - ASSIGNMENT OF RAILROAD COMPANY CONTACT TO SCTRR, LLC.

In January 2001 the Railroad Authority approved the assignment of Rail America's interest in the lease-purchase agreement it has with the Railroad Authority to SCTRR, LLC. The contract terms with the Railroad Authority remained the same as with Rail America. The Tennessee Department of Transportation (TDOT) also provided consent to the sale.

NOTE 12 - COMMITMENTS AND LITIGATION

Litigation:

The Authority is not involved in any litigation which would have a material effect on the financial statements.

Grants:

Amounts received from Grantor agencies are subject to audit and adjustment by Grantor agencies, principally the Federal government. Any disallowed claims including amounts already collected, could become a liability of the Authority.

SUPPLEMENTAL INFORMATION

Financial schedules are used to demonstrate finance related legal and contractual compliance, provide details of data summarized in the financial statements and present other information deemed useful.

SOUTH CENTRAL TENNESSEE RAILROAD AUTHORITY

Schedule of State and Federal Financial Assistance

For the Year Ended June 30, 2012

State Grant Number	CFDA Number	Program Name	Grantor Agency	Receivable (Deferred) Balance July 1, 2011	Cash Receipts	Other Receipts	Cash Expenditures	Receivable (Deferred) Balance June 30, 2012
State Program:								
Z-11-RR100100	10.769	Railroad Rehabilitation	State of Tennessee Department of Transportation	\$5,915	5,915	0	0	0
Z-12RR1034-00	10.769	Railroad Rehabilitation	State of Tennessee Department of Transportation	\$0	29,468	0	29,468	0
GG-1133482	10.769	Railroad Rehabilitation	State of Tennessee Department of Transportation	\$112,500	426,007	0	313,507	0
Z-11-RE2019-00	10.769	Railroad Rehabilitation	State of Tennessee Department of Transportation	\$10,117	35,028	0	24,911	0
Z-11-RE2037-00	10.769	Railroad Rehabilitation	State of Tennessee Department of Transportation	\$1,074	28,308	0	27,234	0
Z-12RR1016-00	10.769	Railroad Rehabilitation	State of Tennessee Department of Transportation	\$0	4,883	0	4,883	0
GG-1033241	10.769	Railroad Rehabilitation	State of Tennessee Department of Transportation	\$195	195	0	0	0
Z-12RR1006-00	10.769	Railroad Rehabilitation	State of Tennessee Department of Transportation	\$0	1,222,622	0	1,574,429	351,807
Z-11RE2056-00	10.769	Railroad Rehabilitation	State of Tennessee Department of Transportation	\$0	30,321	0	30,321	0
Z-11RE200300	10.769	Railroad Rehabilitation	State of Tennessee Department of Transportation	\$0	117,531	0	117,531	0
Z-12RR1009-00	10.769	Railroad Rehabilitation	State of Tennessee Department of Transportation	\$0	467,690	0	606,890	139,200
Totals				129,801	2,367,968	0	2,729,174	491,007

South Central Tennessee Railroad Authority

Schedule of Insurance Coverage

June 30, 2012

Insurance Coverage

\$500,000 Fidelity Bond/ Crime coverage.

Additional liability insurance coverage in the amount of \$10,000,000 is carried by the South Central Tennessee Railroad Company as required by contract.

SOUTH CENTRAL TENNESSEE RAILROAD AUTHORITY

Schedule of Federal Expenditures of Federal Awards

June 30, 2012

<u>Federal Financial Assistance Program</u>	<u>Grantor Agency</u>	<u>CFDA Number</u>	<u>Expenditures</u>
Railroad Rehabilitation	Department of Transportation	10.769	\$2,729,174

**COMPLIANCE AND
INTERNAL CONTROL**

JOHN R. POOLE, CPA
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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND OTHER MATTERS AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

Board of Directors
South Central Tennessee Railroad Authority
Hohenwald, Tennessee

I have audited the financial statements of the South Central Tennessee Railroad Authority as of and for the year ended June 30, 2012, and have issued a report thereon dated September 30, 2012. I conducted the audit in accordance with auditing standards generally accepted of the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the South Central Tennessee Railroad Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing the audit, I considered the South Central Tennessee Railroad Authority's internal control over financial reporting as a basis for designing the auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the South Central Tennessee Railroad Authority's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the South Central Tennessee Railroad Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the South Central Tennessee Railroad Authority's financial statements are free of material misstatement, I 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 the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of the audit and, accordingly, I do not express such an opinion. The results of the tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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This report is intended solely for the information and use of the audit committee, management, and State Comptrollers Office and is not intended to be and should not be used by anyone other than these specified parties.

John R. Poole, CPA

September 30, 2012

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
South Central Tennessee Railroad Authority
Hohenwald, Tennessee

Compliance

I have audited the compliance of the South Central Tennessee Railroad Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on the South Central Tennessee Railroad Authority's major federal program for the year ended June 30, 2012. The Authority's major federal program is identified in the summary of the auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major federal program is the responsibility of the Authority's management. My responsibility is to express an opinion on the Authority's compliance based on my audit.

I conducted the audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. The audit does not provide a legal determination on the Authority's compliance with those requirements.

In my opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing the audit, I considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on the major federal program in order to determine the auditing procedures for the purpose of expressing my opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with the types of compliance requirements of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

My consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, the State Comptrollers Office, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

John R Poole, CPA

September 30, 2012

SOUTH CENTRAL TENNESSEE RAILROAD AUTHORITY

Schedule of Findings and Questioned Costs

June 30, 2012

Section I - Summary of Auditor's Results

Financial Statements

The Auditor's Report on the Financial Statements was an unqualified opinion.

Internal control over financial reporting:

There were no material weaknesses identified.

Significant deficiencies identified - none reported

There was no noncompliance that was material to the financial statements.

Federal Awards

Internal control over major programs:

There were no material weaknesses identified.

There were no significant deficiencies identified that are not considered to be material weaknesses.

The auditor's report on compliance for major programs was unqualified.

There were no audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133.

The Major Program was:

Railroad Rehabilitation, CFDA 10.769

Type A programs have been distinguished as those programs with expenditures greater than \$300,000.

The Railroad Rehabilitation program met this threshold.

South Central Tennessee Railroad Authority was considered to be a low risk auditee.

Section II - Financial Statement Findings

There were no findings related to the financial statements which are required to be reported in accordance with Government Auditing Standards.

Section III - Federal Award Findings and Questioned Costs

There were no findings related to Federal Awards.