SOUTH CENTRAL TENNESSEE RAILROAD AUTHORITY

Financial Statements

For the Year Ended
June 30, 2013

SOUTH CENTRAL TENNESSEE RAILROAD AUTHORITY

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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

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
528 Beverly Ave.
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
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Jason Rich, County Mayor
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Waynesboro TN 38485

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

FINANCIAL SECTION

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CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITORS' REPORT

Board of Directors
South Central Tennessee Railroad Authority
Hohenwald, Tennessee

Report on the Financial Statements
I have audited the accompanying financial statements of the South Central Tennessee Railroad Authority as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Railroad's basic financial statements as listed in the table of contents.

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

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

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

Opinions
In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Central Tennessee Railroad Authority as of June 30, 2013, and the changes in its financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters -Required Supplementary Information

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 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 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.

Other Matters -Other Information

The audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Railroad'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 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 States 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated September 30, 2013 on the consideration of the Railroad's internal control over financial reporting and the tests of its compliance with certain provisions of laws, regulations, contracts, 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 that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

Jack R Poole, CPA

September 30, 2013

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, 2013. 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 $5,488,114. Of this amount, $723,666 (unrestricted net position) may be used to meet the Railroad Authority's ongoing obligations.

The Railroad Authority's total net position increased by $456,895 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.

Overview of the Financial Statements:

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

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Railroad Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of 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 Statement of Cash Flows presents the flow of cash inflows/outflows during the fiscal year.

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 11-17 of this report.

Financial Analysis of the Financial Statements

As noted earlier, net position 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 $5,488,114 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 position - 2013

Current assets	$ 718,537
Other assets	27,929
Capital assets, net	4,764,448
Total assets	5,510,914
Current liabilities	22,800
Net position:	
Net investment in capital assets	4,764,448
Unrestricted	723,666
Total net position	$ 5,488,114

South Central Tennessee Railroad Authority's Net position - 2012

Current assets	$ 1,179,142
Other assets	27,929
Capital assets, net	4,315,155
Total assets	5,522,226
Current liabilities	491,007
Net position:	
Net investment in capital assets	4,315,155
Unrestricted	716,064
Total net position	$ 5,031,219

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

Capital Asset

The South Central Tennessee Railroad Authority's investment in capital assets at June 30, 2013, amounts to $4,764,448 (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

		2013	2012
Constructed tracks	$	5,037,521	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		9,930	9,930
Total		6,173,659	5,598,378
Less accumulated depreciation		(1,409,211)	(1,283,223)
Net Capital Assets	$	4,764,448	4,315,155

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.

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

Comparison of Revenues and Expenses 2013 and 2012

	2013	2012	Variance
Operating Revenues:			
Leasing revenues	17,300	17,810	(510)
Total Operating Revenues	17,300	17,810	(510)
Operating Expenses:			
Administrative and attorney fees	7,000	4,775	2,225
Personnel costs	5,586	6,165	(579)
Depreciation	125,988	57,073	68,915
Dues and donations	36,725	20,765	15,960
Insurance	812	794	18
Office supplies	1,714	5,556	(3,842)
Rehabilitation expense	692,311	538,773	153,538
Miscellaneous expenses	4,341	2,781	1,560
Total Operating Expenses	874,477	636,682	237,795
Operating income (loss)	(857,177)	(618,872)	(238,305)
Nonoperating Revenues			
Grant contributions	1,303,261	2,729,174	(1,425,913)
Gain on sale of assets	0	16,350	(16,350)
Interest income	10,811	11,289	(478)
Total Nonoperating Revenues	1,314,072	2,756,813	(1,442,741)
Net change in net position	456,895	2,137,941	(1,681,046)

The assets of the South Central Tennessee Railroad Authority exceeded its liabilities at the close of the most recent fiscal year by $5,488,114. Of this amount, $723,666 (unrestricted net position) may be used to meet the Railroad Authority's ongoing obligations. The Railroad Authority's total net position increased by $456,895 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.

FINANCIAL STATEMENTS

SOUTH CENTRAL TENNESSEE RAILROAD AUTHORITY

Statement of Net Position

June 30, 2013

Assets	
Current Assets:	
Cash and cash equivalents	$53,843
Certificate of deposits	626,511
Grants receivable	29,898
Account receivable	8,285
Total Current Assets	718,537
Capital Assets:	
Land and improvements	108,418
Trackworks	6,055,311
Building and site improvement	9,930
Less accumulated depreciation	(1,409,211)
Total Capital Assets, Net	4,764,448
Interest receivable on capital lease option	27,929
Total Assets	$5,510,914
Liabilities and Net Position	
Current Liabilities	
Accounts payable	22,800
Total Current Liabilities	22,800
Net Position:	
Unrestriced	723,666
Net investment in capital assets	4,764,448
Total Net Assets	5,488,114
Total Liabilities and Net Position	$5,510,914

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

SOUTH CENTRAL TENNESSEE RAILROAD AUTHORITY

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2013

Operating Revenues:	
Leasing revenues	17,300
Total Operating Revenues	17,300
Operating Expenses:	
Administrative and attorney fees	7,000
Personnel costs	5,586
Telephone	1,617
Depreciation	125,988
Insurance	812
Dues and donations	36,725
Office supplies	1,714
Rehabilitation expense	692,311
Miscellaneous expenses	2,724
Total Operating Expenses	874,477
Operating income (loss)	(857,177)
Nonoperating Revenues (Expenses):	
Grant contributions	727,980
Interest income	10,811
Total Nonoperating Revenues (Expenses)	738,791
Capital contributions	575,281
Change in net position	456,895
Net position, June 30, 2012	5,031,219
Net position, June 30, 2013	$5,488,114

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, 2013

Cash Flows from Operating Activities:	
Cash received from customers	$17,300
Cash paid to suppliers	(25,442)
Net Cash Provided (Used) by Operating Activities	(8,142)
Cash Flows from Capital and Related Financing Activities:	
Acquisition of capital assets	(575,281)
Capital contribution	575,281
Net Cash Provided (Used) by Capital and Related Financing Activities	0
Cash Flows from Investing Activities:	
Redemption (purchase) of certificate of deposit	(4,119)
Interest received	10,811
Net Cash Provided (Used) by Investing Activities	6,692
Net Change in Cash	(1,450)
Cash and Cash Equivalents, June 30, 2012	55,293
Cash and Cash Equivalents, June 30, 2013	$53,843

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating income (loss)	($857,177)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Grant contributions	727,980
Depreciation	125,988
Change in assets (increase) decrease:	
Grants and accounts receivable	461,109
Change in liabilities increase (decrease):	
Accounts payable	(466,042)
Net Cash Provided (Used) by Operating Activities	($8,142)

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

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. The Railroad Authority uses the economic resources measurement focus.

Net Position Flow Assumption -Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

B. SIGNIFICANT ACCOUNTING POLICIES, Continued

Capital 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. Capital Assets of the Railroad is recorded at cost. Depreciation is computed over the estimated life of the assets utilizing the straight-line method. The estimated life for capital assets is from 3 to 40 years. Capital assets are defined by the Railroad as assets with an individual cost of $5,000 and an estimated useful life in excess of three years.

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.

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.

Operating Revenues and Operating Expenses -The Railroad recognizes operating revenues and operating expenses resulting from providing services and producing goods to its customers. All other revenues and services are deemed nonoperating.

Note 1 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

Note 3 - CAPITAL ASSETS IN SERVICE

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

Assets not being depreciated

	Balance 6-30-12	Additions	Disposals	Balance 6-30-13
Land	$ 108,418	-	-	108,418
Construction in progress	2,181,320	-	2,181,320	-

Asset that are being depreciated

	Balance 6-30-12	Additions	Disposals	Balance 6-30-13
Building	9,930	-	-	9,930
Trackworks	3,298,710	2,756,601	-	6,055,311
	3,308,640	-	-	6,065,241
Less accumulated depreciation	1,283,223			1,409,211
Capital assets - net	$ 4,315,155			4,764,448

Depreciation expense for the current year was $125,988. The accumulated depreciation is comprised of Building $9,930 and Track works $1,399,281.

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.

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, 2013 is $1,400 per month. The Railroad Authority received total lease payments of $17,800 for the year ended June 30, 2013.

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, 2013 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 Railroad 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.

NOTE 7. REHABILITATION & EXPANSION GRANTS FROM THE TN DEPARMENT 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.

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

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.

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.

NOTE 13 – SUBSEQUENT EVENTS

Subsequent to year end the Railroad received notice of Stop Work Notice on all active grant projects. The Stop Work Notice stated that all current grant projects may not receive any further funding. The length of this Stop Work Notice cannot be determined by the Railroad at this time. No changes have been made to the financial statements as of June 30, 2013.

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, 2013

State Grant Number	CFDA Number	Program Name	Grantor Agency	Receivable (Deferred) Balance July 1, 2012	Cash Receipts	Other Receipts	Cash Expenditures	Receivable (Deferred) Balance June 30, 2013
State Program:								
Z-11-RR2003-00	20.320	Railroad Rehabiliation	State of Tennessee Department of Transportation	$0	64,319	0	64,319	0
Z-12-RR1034-00	20.320	Railroad Rehabiliation	State of Tennessee Department of Transportation	$0	10,691	0	10,691	0
Z-12-RR1052-00	20.320	Railroad Rehabiliation	State of Tennessee Department of Transportation	$0	24,144	0	24,144	0
Z-13-RR1002-00	20.320	Railroad Rehabiliation	State of Tennessee Department of Transportation	$0	182,490	0	182,490	0
Z-12RR1016-00	20.320	Railroad Rehabiliation	State of Tennessee Department of Transportation	$0	47,186	0	47,186	0
Z-13RR1001-00	20.320	Railroad Rehabiliation	State of Tennessee Department of Transportation	$0	337,500	0	337,500	0
Z-12RR1006-00	20.320	Railroad Rehabiliation	State of Tennessee Department of Transportation	$351,807	670,646	0	318,839	0
Z-13RE2014-00	20.320	Railroad Rehabiliation	State of Tennessee Department of Transportation	$0	8,837	0	25,833	16,996
Z-13-RE2032-00	20.320	Railroad Rehabiliation	State of Tennessee Department of Transportation	$0	22,915	0	28,593	5,678
Z-12RR1009-00	20.320	Railroad Rehabiliation	State of Tennessee Department of Transportation	$139,200	395,642	0	263,666	7,224
	Totals			491,007	1,764,370	0	1,303,261	29,898

South Central Tennessee Railroad Authority

Schedule of Insurance Coverage

June 30, 2013

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, 2013

Federal Financial Assistance Program	Grantor Agency	CFDA Number	Expenditures
Railroad Rehabiliation	Department of Transportation	20.320	$1,303,261

COMPLIANCE AND INTERNAL CONTROL

JOHN R. POOLE, CPA
CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
South Central Tennessee Railroad Authority
Hohenwald, Tennessee

I 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 South Central Tennessee Railroad Authority as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise South Central Tennessee Railroad Authority's financial statements and have issued a report thereon dated June 30, 2013.

Internal Control Over Financial Reporting
In planning and performing my audit of the financial statements, I considered the South Central Tennessee Railroad Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing 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. Accordingly, I do not express an opinion on the effectiveness of the Organization'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 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.

My consideration of the 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. Given these limitations, during the audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.*

Purpose of This Report

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

John R Poole, CPA

September 30, 2013

JOHN R. POOLE, CPA
CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Board of Directors
South Central Tennessee Railroad Authority
Hohenwald, Tennessee

Report on Compliance for Each Major Federal Program
I have audited the South Central Tennessee Railroad Authority's compliance 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 each of its major federal programs for the year ended June 30, 2013. The Organization's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility
My responsibility is to express an opinion on the compliance for each of South Central Tennessee Railroad Authority's major federal programs based on my audit of the types of compliance requirements referred to above. 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 Organization'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 on compliance for each major federal program. However, the audit does not provide a legal determination on the Organization's compliance.

Opinion on Each Major Federal Program
In my opinion, South Central Tennessee Railroad Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters
The results of the auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133.

Report on Internal Control Over Compliance
Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing the audit of compliance, I considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program 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 Organization'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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of the testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Jack R Poole, CPA

September 30, 2013

SOUTH CENTRAL TENNESSEE RAILROAD AUTHORITY

Schedule of Findings and Questioned Costs

June 30, 2013

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:

Material weakness identified ? No.

Significant deficiencies identified ? None reported

Noncompliance material to financial statements noted ? No.

Federal Awards

Internal control over major programs:

Material weakness identified ? No.

Significant deficiencies identified ? None reported

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 Rehabiliation, CFDA 20.320

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