

**SOUTH CENTRAL TENNESSEE  
RAILROAD AUTHORITY**

Financial Statements

For the Year Ended  
June 30, 2014

# SOUTH CENTRAL TENNESSEE RAILROAD AUTHORITY

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# Introductory Section

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  
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

**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, 2014, 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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, 2014, 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.

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, 2014 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.

*Jah R Poole, CPA*

September 30, 2014

## **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, 2014. 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 \$5,292,415. Of this amount, \$653,955 (unrestricted net position) may be used to meet the Railroad Authority's ongoing obligations.

The Railroad Authority's total net position decreased by \$195,699 during the current year, as a result of the Stop Work Notice from the State of Tennessee which halted all 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 \$5,292,415 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 - 2014

Current assets	\$ 626,068
Other assets	27,929
Capital assets, net	<u>4,638,460</u>
Total assets	<u>5,292,457</u>
Current liabilities	<u>42</u>
Net position:	
Net investment in capital assets	4,638,460
Unrestricted	<u>653,955</u>
Total net position	\$ <u>5,292,415</u>

### South Central Tennessee Railroad Authority's Net Position - 2013

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

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, 2014, amounts to \$4,638,460 (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>2013</u>	<u>2014</u>
Constructed tracks	\$ 5,037,521	5,037,521
Land and improvements	108,418	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	6,173,659	6,173,659
Less accumulated depreciation	<u>(1,409,211)</u>	<u>(1,535,199)</u>
Net Capital Assets	\$ <u>4,764,448</u>	<u>4,638,460</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.

## 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 2014 and 2013**

	2014	2013	Variance
Operating Revenues:			
Leasing revenues	17,310	17,300	10
Total Operating Revenues	<u>17,310</u>	<u>17,300</u>	<u>10</u>
Operating Expenses:			
Administrative and attorney fees	15,913	7,000	8,913
Personnel costs	5,185	5,586	(401)
Depreciation	125,988	125,988	0
Dues and donations	26,084	36,725	(10,641)
Professional services	39,176	0	39,176
Insurance	862	812	50
Office supplies	1,844	1,714	130
Rehabilitation expense	120,409	692,311	(571,902)
Miscellaneous expenses	6,517	4,341	2,176
Total Operating Expenses	<u>341,978</u>	<u>874,477</u>	<u>(532,499)</u>
Operating income (loss)	<u>(324,668)</u>	<u>(857,177)</u>	<u>532,509</u>
Nonoperating Revenues			
Grant contributions	122,387	1,303,261	(1,180,874)
Interest income	6,582	10,811	(4,229)
Total Nonoperating Revenues	<u>128,969</u>	<u>1,314,072</u>	<u>(1,185,103)</u>
Net change in net position	(195,699)	456,895	(652,594)

The Railroad Authority's total net position decreased by \$195,699 during the current year, as a result of the Stop Work Notice from the State of Tennessee which halted all 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, 2014

### Assets

#### Current Assets:

Cash and cash equivalents	\$58,157
Certificate of deposits	566,511
Account receivable	1,400
Total Current Assets	<u>626,068</u>

#### Capital Assets:

Land and improvements	108,418
Trackworks	6,055,311
Building and site improvement	9,930
Less accumulated depreciation	<u>(1,535,199)</u>
Total Capital Assets, Net	<u>4,638,460</u>

Interest receivable on capital lease option	<u>27,929</u>
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Total Assets	<u><u>\$5,292,457</u></u>
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### Liabilities and Net Position

#### Current Liabilities

Accounts payable	42
Total Current Liabilities	<u>42</u>

#### Net Position:

Unrestricted	653,955
Investment in capital assets	4,638,460
Total Net Position	<u>5,292,415</u>

Total Liabilities and Net Position	<u><u>\$5,292,457</u></u>
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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, 2014**

Operating Revenues:	
Leasing revenues	17,310
Total Operating Revenues	<u>17,310</u>
Operating Expenses:	
Administrative and attorney fees	15,913
Personnel costs	5,185
Telephone	1,847
Depreciation	125,988
Insurance	862
Settlement	28,602
Professional services	10,574
Dues and donations	26,084
Office supplies	1,844
Rehabilitation expense	120,409
Travel	4,500
Miscellaneous expenses	170
Total Operating Expenses	<u>341,978</u>
Operating income (loss)	<u>(324,668)</u>
Nonoperating Revenues (Expenses):	
Grant contributions	122,387
Interest income	6,582
Total Nonoperating Revenues (Expenses)	<u>128,969</u>
Change in net position	(195,699)
Net position, June 30, 2013	<u>5,488,114</u>
Net position, June 30, 2014	<u><u>\$5,292,415</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, 2014**

Cash Flows from Operating Activities:	
Cash received from customers	\$17,310
Cash paid to suppliers	<u>(201,965)</u>
Net Cash Provided (Used) by Operating Activities	<u>(184,655)</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of capital assets	<u>0</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>0</u>
Cash Flows from Non-Capital and Related Financing Activities:	
State contributions	<u>122,387</u>
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	<u>122,387</u>
Cash Flows from Investing Activities:	
Redemption (purchase) of certificate of deposit	60,000
Interest received	<u>6,582</u>
Net Cash Provided (Used) by Investing Activities	<u>66,582</u>
Net Change in Cash	4,314
Cash and Cash Equivalents, June 30, 2013	<u>53,843</u>
Cash and Cash Equivalents, June 30, 2014	<u><u>\$58,157</u></u>

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating income (loss)	(\$324,668)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	125,988
Change in assets (increase) decrease:	
Grants and accounts receivable	36,783
Change in liabilities increase (decrease):	
Accounts payable	<u>(22,758)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>(\$184,655)</u></u>

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

# Notes to Financial Statements

# South Central Tennessee Railroad Authority

## Notes to Financial Statements

June 30, 2014

### **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, two shippers who loaned \$25,000 each, 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 Railroad's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

## South Central Tennessee Railroad Authority

### Notes to Financial Statements

#### **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.



## **South Central Tennessee Railroad Authority**

### Notes to Financial Statements

June 30, 2014

#### **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 \$16,810 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, 2014 is \$1,400 per month. The Railroad Authority received total lease payments of \$17,800 for the year ended June 30, 2014.

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, 2014 was \$122,387.

#### **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.

## **South Central Tennessee Railroad Authority**

### Notes to Financial Statements

June 30, 2014

#### **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 the 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 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.

## **South Central Tennessee Railroad Authority**

### Notes to Financial Statements

June 30, 2014

#### **NOTE 7. REHABILITATION & EXPANSION GRANTS FROM THE TN DEPARTMENT 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.

## **South Central Tennessee Railroad Authority**

### Notes to Financial Statements

June 30, 2014

#### **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 – STOP WORK NOTICE**

During the year 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, 2014 as a result of the Stop Work Notice.

# Supplemental Information

**SOUTH CENTRAL TENNESSEE RAILROAD AUTHORITY**

**Schedule of State and Federal Financial Assistance**

**For the Year Ended June 30, 2014**

State Grant Number	CFDA Number	Program Name	Grantor Agency	Receivable (Deferred) Balance July 1, 2013	Cash Receipts	Other Receipts	Cash Expenditures	Receivable (Deferred) Balance June 30, 2014
<b>State Program:</b>								
Z-12-RR1052-00	20.320	Railroad Rehabilitation	State of Tennessee Department of Transportation	\$0	11,851	0	11,851	0
Z-13-RR1002-00	20.320	Railroad Rehabilitation	State of Tennessee Department of Transportation	\$0	6,108	0	6,108	0
Z-13RR1001-00	20.320	Railroad Rehabilitation	State of Tennessee Department of Transportation	\$0	60,000	0	60,000	0
Z-12RR1006-00	20.320	Railroad Rehabilitation	State of Tennessee Department of Transportation	\$0	2,974	0	2,974	0
Z-13RE2014-00	20.320	Railroad Rehabilitation	State of Tennessee Department of Transportation	\$16,996	37,900	0	20,904	0
Z-13-RE2032-00	20.320	Railroad Rehabilitation	State of Tennessee Department of Transportation	\$5,678	26,229	0	20,551	0
Z-12RR1009-00	20.320	Railroad Rehabilitation	State of Tennessee Department of Transportation	\$7,224	7,224	0	0	0
Totals				29,898	152,286	0	122,388	0

This schedule prepared on the accrual basis of accounting.

**South Central Tennessee Railroad Authority**

Schedule of Insurance Coverage

June 30, 2014

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.

# 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, 2014, 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 September 30, 2014.

**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, 2014