

NORTHEAST TENNESSEE RAILROAD AUTHORITY

**FINANCIAL STATEMENTS
WITH
SUPPLEMENTAL FINANCIAL INFORMATION**

JUNE 30, 2009 AND 2008

NORTHEAST TENNESSEE RAILROAD AUTHORITY

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CERTIFIED PUBLIC ACCOUNTANTS

Joe Savage
Marie I. Niekerk
Josh Stone
Earl O. Wright - 1988 - 2002

Stephen J. Parsons
Catherine R. Hulme
William R. Scandlyn - 1988 - 1999

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Northeast Tennessee Railroad Authority
Huntsville, Tennessee

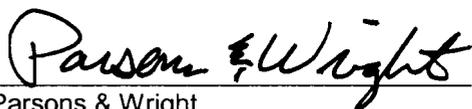
We have audited the accompanying financial statements of the governmental activities and the major fund, of the Northeast Tennessee Railroad Authority as of and for the year ended June 30, 2009, which collectively comprise the Northeast Tennessee Railroad Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Northeast Tennessee Railroad Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the major fund as of June 30, 2009 and 2008, and the respective changes in financial position for the year ended June 30, 2009 and the period from inception, June 9, 2005, to June 30, 2008 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 11, 2009, on our consideration of Northeast Tennessee Railroad Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, 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 important for assessing the results of our audit.

The Management's Discussion and Analysis on pages 2 through 4 is not a required part of the financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Parsons & Wright
Certified Public Accountants
Kingston, Tennessee

December 11, 2009

**NORTHEAST TENNESSEE RAILROAD
AUTHORITY**

FINANCIAL SECTION

JUNE 30, 2009 AND 2008

The following is a narrative overview and analysis of the Authority's financial performance for the year ended June 30, 2009. This section is only an introduction and should be read in conjunction with the Authority's financial statements, which immediately follow this section.

The following management discussion and analysis (MD&A) provides a comprehensive overview of the financial position of Northeast Tennessee Railroad Authority as of June 30, 2009, and its results of operations for the year then ended. Management has prepared the MD&A.

Financial Highlights

Following are the financial highlights of the Authority for the year ended June 30, 2009:

- The Authority's net assets increased \$207,469 over the course of this year's operations. The change in net assets is a 37.7% increase from the fiscal year ended June 30, 2008.
- During the year, the Authority's revenues exceeded expenses by \$207,469 primarily due to contributions from National Coal Railroad, Inc.
- The Authority's total expenditures increased 55.4% in the fiscal year ended June 30, 2009.
- The Authority's cash balance increased \$94,583 during the fiscal year ended June 30, 2009. The increase is primarily due to contributions from National Coal Railroad, Inc.
- The Authority's liabilities decreased \$13,166 over the fiscal year ended June 30, 2009.

Overview of the Financial Statements

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

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

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

Government-wide Statements

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

- Over time, increases or decreases in the Authority's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Authority you need to consider additional non-financial factors.

Fund Financial Statements

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

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

The Northeast Tennessee Railroad Authority has only one kind of fund:

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

Financial Analysis of the Organization as a Whole

Net Assets – The Authority's net assets increased \$194,303 between fiscal years 2008 and 2009.

Northeast Tennessee Railroad Authority Net Assets June 30, 2009 and 2008

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>% Change</u>
Current Assets	\$ 120,044	\$ 25,993	362%
Capital Assets	655,176	554,924	18%
Total Assets	<u>\$ 775,220</u>	<u>\$ 580,917</u>	33%
Current Liabilities	<u>\$ 17,466</u>	<u>\$ 30,632</u>	-43%
Total Liabilities	17,466	30,632	-43%
Net Assets:			
Invested in Capital Assets	\$ 655,176	\$ 554,924	18%
Unrestricted Net Assets	102,578	(4,639)	-2311%
Total Net Assets	<u>757,754</u>	<u>550,285</u>	38%
Total Liabilities and Net Assets	<u>\$ 775,220</u>	<u>\$ 580,917</u>	33%

Changes in Net Assets – The Authority's total operating revenues decreased \$308,973 during the fiscal year. The Authority's primary sources of revenue are appropriations from the Tennessee Department of Transportation for railroad improvements and contributions from National Coal Railroad, Inc. Revenues from the Department of Transportation decreased \$558,952. Contributions from National Coal Railroad,

Inc. increased \$250,000. The total cost of all programs increased by \$34,273 due mainly to increased depreciation.

Changes in Net Assets

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>% Change</u>
Total Operating Revenues	\$ 302,860	\$ 611,812	-50%
Total Operating Expenses	<u>(96,112)</u>	<u>(61,839)</u>	55%
	<u>\$ 206,748</u>	<u>\$ 549,973</u>	-62%

Economic Factors That Will Affect the Future

The Authority remains committed to rehabilitating and preserving rail service for Anderson, Campbell, and Scott counties. Its ability to successfully accomplish this is at least in part based upon the economic outlook for Anderson, Campbell, and Scott counties as well as upon its ability to continue to attract funding for future improvements.

Contacting the Authority’s Financial Management

This financial report is designed to provide citizens, taxpayers, and customers of the Northeast Tennessee Railroad Authority information about the Authority’s finances and to demonstrate the Authority’s accountability for the money it receives. If you have questions about this report or need additional information, contact the Northeast Tennessee Railroad Authority at PO Box 180, Huntsville, TN 37756.

GOVERNMENT-WIDE STATEMENTS

**NORTHEAST TENNESSEE RAILROAD AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2009 AND 2008**

	<u>Governmental Activities</u>	
	<u>June 30, 2009</u>	<u>June 30, 2008</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 112,141	\$ 17,558
Grants Receivable	7,903	8,435
Total Current Assets	\$ 120,044	\$ 25,993
PROPERTY AND EQUIPMENT		
Property Improvements	\$ 557,246	\$ 557,246
Less: Accumulated Depreciation	(57,814)	(2,322)
Construction in Progress	155,744	0
Net Property and Equipment	\$ 655,176	\$ 554,924
TOTAL ASSETS	\$ 775,220	\$ 580,917
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 12,684	\$ 22,197
Deferred Revenue	4,782	8,435
TOTAL LIABILITIES	\$ 17,466	\$ 30,632
NET ASSETS		
Invested in Capital Assets Net of Related Depreciation	\$ 655,176	\$ 554,924
Unrestricted	102,578	(4,639)
TOTAL NET ASSETS	\$ 757,754	\$ 550,285
TOTAL LIABILITIES AND NET ASSETS	\$ 775,220	\$ 580,917

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

**NORTHEAST TENNESSEE RAILROAD AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR END JUNE 30, 2009 AND THE PERIOD FROM
INCEPTION, JUNE 9, 2005, TO JUNE 30, 2008**

YEAR ENDED JUNE 30, 2009

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Charges For Service</u>	<u>Grants and Contributions</u>	
Governmental Activities				
Infrastructure Development	\$ 90,937	\$ 0	\$ 302,860	\$ 211,923
General & Administrative	<u>5,175</u>	<u>0</u>	<u>0</u>	<u>(5,175)</u>
	<u>\$ 96,112</u>	<u>\$ -</u>	<u>\$ 302,860</u>	206,748
General Revenues:				
				<u>721</u>
				721
				\$ 207,469
				<u>550,285</u>
				<u>\$ 757,754</u>

PERIOD FROM INCEPTION, JUNE 9, 2005, TO JUNE 30, 2008

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Charges For Service</u>	<u>Grants and Contributions</u>	
Governmental Activities				
Infrastructure Development	\$ 61,708	\$ 0	\$ 611,812	\$ 550,104
General & Administrative	<u>131</u>	<u>0</u>	<u>21</u>	<u>(110)</u>
	<u>\$ 61,839</u>	<u>\$ -</u>	<u>\$ 611,833</u>	549,994
General Revenues:				
				<u>291</u>
				291
				\$ 550,285
				<u>0</u>
				<u>\$ 550,285</u>

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

FUND STATEMENTS

**NORTHEAST TENNESSEE RAILROAD AUTHORITY
BALANCE SHEET
JUNE 30, 2009**

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 112,141	\$ 17,558
Grants Receivable	<u>7,903</u>	<u>8,435</u>
TOTAL ASSETS	<u>\$ 120,044</u>	<u>\$ 25,993</u>
LIABILITIES AND FUND BALANCE		
CURRENT LIABILITIES		
Accounts Payable	\$ 12,684	\$ 22,197
Deferred Revenue	<u>4,782</u>	<u>8,435</u>
TOTAL LIABILITIES	<u>\$ 17,466</u>	<u>\$ 30,632</u>
FUND BALANCE		
Restricted	\$ 0	\$ 0
Unrestricted	<u>102,578</u>	<u>(4,639)</u>
TOTAL NET ASSETS	<u>102,578</u>	<u>(4,639)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 120,044</u>	<u>\$ 25,993</u>
Total Fund Balance Per Fund Financial Statements	\$ 102,578	\$ (4,639)
Reconciliation to the Statement of Net Assets:		
Fixed assets are not included in the fund financial statements prepared on the modified accrual basis of accounting.	<u>655,176</u>	<u>554,924</u>
Net Assets	<u>\$ 757,754</u>	<u>\$ 550,285</u>

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

**NORTHEAST TENNESSEE RAILROAD AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2009 AND THE PERIOD FROM
INCEPTION, JUNE 9, 2005, TO JUNE 30, 2008**

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
REVENUE		
Grant Revenue	\$ 52,860	\$ 611,812
Interest Income	721	291
Contributions From National Coal	250,000	0
Other	<u>0</u>	<u>21</u>
TOTAL REVENUES	\$ <u>303,581</u>	\$ <u>612,124</u>
EXPENDITURES		
Rail Maintenance/Rehabilitation	\$ 191,188	\$ 616,632
Bank Charges	0	96
Accounting and Legal	5,000	0
Other	<u>176</u>	<u>35</u>
TOTAL EXPENDITURES	\$ <u>196,364</u>	\$ <u>616,763</u>
EXCESS OF EXPENDITURES OVER REVENUES	\$ 107,217	\$ (4,639)
FUND BALANCE, BEGINNING OF YEAR	<u>(4,639)</u>	<u>0</u>
FUND BALANCE, END OF YEAR	\$ <u><u>102,578</u></u>	\$ <u><u>(4,639)</u></u>
Net Change in Fund Balances - Total Governmental Funds	\$ 107,217	\$ (4,639)
 Purchases of fixed assets are an expenditure in the governmental funds, but are increases in property and equipment on the statement of net assets in the government-wide statements.	 155,744	 557,246
 Depreciation is not recorded in the fund financial statements but is reported in the government-wide financial statements.	 <u>(55,492)</u>	 <u>(2,322)</u>
Change in Net Assets	\$ <u><u>207,469</u></u>	\$ <u><u>550,285</u></u>

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

**NORTHEAST TENNESSEE RAILROAD AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE A – SUMMARY OF ACCOUNTING POLICIES

1. The Reporting Entity

The financial statements present the accounts and operations of the Northeast Tennessee Railroad Authority. Northeast Tennessee Railroad Authority was incorporated in June 2005 as a public authority created by the Tennessee State Legislature. The purpose of the Authority is to preserve and enhance the railroad system serving Anderson, Campbell, and Scott counties in Tennessee, so as to secure economic benefits for these counties. The Authority is governed by a board of directors, which includes the mayor for each of the three counties served by the Authority.

2. Government-Wide and Fund Financial Statements

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

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

Fund Financial Statements

Fund financial statements are provided for the governmental fund.

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

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

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

**NORTHEAST TENNESSEE RAILROAD AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

4. Fund Types and Major Funds

The Northeast Tennessee Railroad Authority reports the following major governmental fund:

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

5. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

6. Property and Depreciation

The Authority follows a policy of capitalizing all significant fixed asset purchases at cost. These assets are depreciated by the straight-line method over their estimated useful lives. Property and improvements for the Authority consists of the following:

	<u>Useful Life</u>	<u>6/30/2008</u>		<u>6/30/2009</u>	
		<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
Improvements to Track	10 Years	\$ 4,400	\$ 0	\$ 0	\$ 4,400
Improvements to Bridge	10 Years	552,846	0	0	552,846
Construction in Progress		-	155,744	0	155,744
		<u>\$ 557,246</u>	<u>\$ 155,744</u>	<u>\$ -</u>	<u>\$ 712,990</u>
Accumulated Depreciation by Major Asset Class					
Improvements to Track		\$ (18)	\$ (438)	\$ 0	\$ (456)
Improvements to Bridge		<u>(2,304)</u>	<u>(55,054)</u>	<u>0</u>	<u>(57,358)</u>
		<u>(2,322)</u>	<u>(55,492)</u>	<u>-</u>	<u>(57,814)</u>
Net Property and Improvements		<u>\$ 554,924</u>	<u>\$ 100,252</u>	<u>\$ -</u>	<u>\$ 655,176</u>

Depreciation expense for the year ended June 30, 2009 was \$55,492 and for the period from Inception, June 9, 2005, to June 30, 2008 was \$2,322.

7. Income Tax Status

The Internal Revenue Service has classified the Authority as exempt from Federal Income taxes under Section 501(a) of the United States Internal Revenue Code.

NOTE B – CASH AND CASH EQUIVALENTS

At June 30, 2009 the bank balance of cash and cash equivalents is \$112,141. The bank balances were entirely secured by FDIC insurance.

**NORTHEAST TENNESSEE RAILROAD AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE C – GRANTS AND CONTRACTS

The Tennessee Department of Transportation (T.D.O.T.) has contracted with the Authority to provide funds to purchase, rehabilitate, and maintain the line. In the event of disposition of the branchline the Authority shall return to the State a portion of the sales price or the appraised value, whichever is applicable, which is in proportion to the State's prorate share of the total purchase price plus the total rehabilitation expenditures prior to the date of the sales.

The Authority has received \$708,707 in grants for rail line improvements to be made through June 2011. The ability of the Authority to receive these grant funds is conditional on its expenditure of these funds for the purposes set forth in the grant agreement. Because of this, revenue is not recognized until the funds have been expended.

Substantially all grants and contracts are subject to financial and compliance audits by the grantor agencies. Disallowance, if any, as a result of these audits may become liabilities of the Authority. Management believes that no disallowance will result from audits by grantor agencies.

NOTE D- RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. Insurance for the railroad is the responsibility of National Coal Railroad, Inc. National Coal Railroad, Inc. has decided not to purchase insurance, but rather to consider the railroad self-insured. Any loss or damage associated with the railroad, which would be paid by insurance, will be paid by National Coal Railroad, Inc.

SUPPLEMENTARY SCHEDULES

**NORTHEAST TENNESSEE RAILROAD AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE CONTRACT EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2009**

<u>Number</u>	<u>Grantor Agency</u>	<u>Balance</u>			<u>Balance</u>
		<u>July 1, 2008</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>June 30, 2009</u>
Cont. #Z-07033-876	TN Dept of Transportation	\$ -	\$ 18,074	\$ (18,074)	\$ -
Cont. #Z-07033-894	TN Dept of Transportation	-	2,040	(2,040)	-
Cont. #Z-08020-895	TN Dept of Transportation	(8,435)	18,925	(10,490)	-
Cont. #Z-08020-937	TN Dept of Transportation	-	4,309	(4,309)	-
Cont. #Z-09213-045	TN Dept of Transportation	-	6,390	(14,293)	(7,903)
TOTAL		<u>\$ (8,435)</u>	<u>\$ 49,738</u>	<u>\$ (49,206)</u>	<u>\$ (7,903)</u>

Note> The accompanying Schedule of Expenditures of Federal Awards and Expenditures of State Assistance includes the federal grants and state contract activity of Scott Appalachian Industries, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with *The Audit Manual for the State of Tennessee*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

**NORTHEAST TENNESSEE RAILROAD AUTHORITY
INTERNAL CONTROL AND
COMPLIANCE AND OTHER MATTERS
SECTION**

JUNE 30, 2009

CERTIFIED PUBLIC ACCOUNTANTS

Joe Savage
Marie I. Niekerk
Josh Stone
Earl O. Wright - 1988 - 2002

Stephen J. Parsons
Catherine R. Hulme
William R. Scandlyn - 1988 - 1999

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

To the Board of Directors of
Northeast Tennessee Railroad Authority

We have audited the financial statements of Northeast Tennessee Railroad Authority as of June 30, 2009 and for the year ended June 30, 2009, and have issued our report thereon dated December 11, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Northeast Tennessee Railroad Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northeast Tennessee Railroad Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the authority's financial statements that is more than inconsequential will not be prevented or detected by the authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the authority's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeast Tennessee Railroad Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not

express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the entity, the Board of Directors, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Parsons & Wright
Certified Public Accountants
Kingston, Tennessee

December 11, 2009