

NASHVILLE & EASTERN RAILROAD AUTHORITY  
FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

NASHVILLE & EASTERN RAILROAD AUTHORITY

JUNE 30, 2009

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Nashville & Eastern Railroad Authority

We have audited the accompanying financial statements of the governmental activities and the major fund, of the Nashville & Eastern Railroad Authority as of and for the year ended June 30, 2009, which collectively comprise the Nashville & Eastern Railroad Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Nashville & Eastern 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 the 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 the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2010, on our consideration of the Nashville & Eastern Railroad Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 5 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Nashville & Eastern Railroad Authority's basic financial statements. The schedule of salaries and fidelity bonds is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of state contract expenditures is presented for purposes of additional analysis as required by *Comptroller of the Treasury of the State of Tennessee Audit Manual* and is not a required part of the basic financial statements of the Nashville & Eastern Railroad Authority. The schedule of state contract expenditures has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The schedule of salaries and fidelity bonds of principal officials on page 27 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sincerely,

*Dempsey Vantrasse & Follis PLLC*

Lebanon, Tennessee

February 25, 2010

## **Management's Discussion And Analysis**

This section of the Nashville & Eastern Railroad Authority's (the Authority) audited financial statements presents our discussion and analysis of the Organization's financial performance during the fiscal year that ended on June 30, 2009. Please read it in conjunction with the financial statements, which follow this section.

### **Financial Highlights**

The Organization's net assets increased \$1,155,617 over the course of this year's operations. The change in net assets is a 2.24% increase for the fiscal year ended June 30, 2008.

During the year, the Organization's revenues exceeded expenses by \$1,155,617 due primarily the prior year's railroad rehabilitation costs being funded largely by the USDA loan proceeds.

The total cost of the Organization's expenditures increased 3.91% in the fiscal year ended June 30, 2009. The increase was largely due to the settlement of a lawsuit.

Balances of cash decreased \$462,609.00 (85.19%) during the fiscal year ended June 30, 2009. The decrease is primarily due to spending the loan proceeds from USDA funds obligated at June 30, 2008 for rehabilitation of the railroad.

The Authority's liabilities decreased \$1,206,444 over the fiscal year ended June 30, 2009 due to paying the accrued interest on the USDA at June 30, 2008 and principal paid on long-term debt.

### **Overview of the Financial Statements**

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

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

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

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

### **Government-wide Statements**

The government wide statements report information about the Nashville & Eastern Railroad Authority as a whole using accounting methods similar to those used by private-sector companies. The statement of net 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 Board's net assets and how they have changed. Net assets – the difference between the Board's assets and liabilities– is one way to measure the Nashville & Eastern Railroad's financial health, or position.

Over time, increases or decreases in the Authority's net 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 taxes.

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

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

## Financial Analysis of the Organization as a whole

**Net Assets.** The Organization's net assets increased \$1,155,617.00 between fiscal years 2008 and 2009. In comparison, net assets for the fiscal year ended June 30, 2008 decreased \$505,030 from the fiscal year ended June 30, 2007. Income from ongoing operations increased \$1,400,900 during the fiscal year ended June 30, 2009 from the fiscal year ended June 30, 2008.

### Nashville & Eastern Railroad Authority Net Assets June 30, 2009 and June 30, 2008

	<u>2009</u>	<u>2008</u>	<u>% Change</u>
Current and Other Assets	\$ 297,033	\$ 1,072,343	(72.30)%
Capital Assets	51,133,803	50,409,320	1.44%
Total Assets	<u>\$ 51,430,836</u>	<u>\$ 51,481,663</u>	(0.10)%
Current and Other Liabilities	\$ 9,471,507	\$10,677,951	(11.3)%
Net Assets			
Invested In Capital Assets			
Net of Debt & Depreciation	42,042,269	40,905,621	2.78%
Restricted Net Assets	-	14,000	(100)%
Unrestricted	<u>(82,940)</u>	<u>(115,909)</u>	(28.44)%
Total Liabilities & Net Assets	<u>\$ 51,430,836</u>	<u>\$ 51,481,663</u>	2.83%

Net assets increased by \$1,155,617 during the fiscal year ended June 30, 2009.

**Changes In Net Assets.** The Authority's total revenues increased \$1,746,601 during the fiscal year. The Authority's primary sources of revenue are appropriations from the Tennessee Department of Transportation for railroad improvements and a lease agreement between the Authority and railroad operator which requires the operator to pay 4% - 6% of gross revenues from freight hauled on the railroad back to the Authority as a lease fee. Revenues from the Department of Transportation increased \$1,521,976. Revenues from the lease of the railroad decreased \$(121,076). The total cost of all programs increased by \$85,964 due mainly to increased depreciation and interest on a major rehabilitation loan for infrastructure improvements between Monterey and Algood, Tennessee and a settlement reached on a lawsuit.

Nashville & Eastern Railroad Authority  
 Changes In Net Assets  
 June 30, 2008 and June 30, 2009

	<u>2009</u>	<u>2008</u>	<u>% Change</u>
Total Operating Revenues	\$ 2,902,153	\$ 1,501,253	93.32 %
Total Operating Expenses	<u>2,285,962</u>	<u>2,199,999</u>	3.91%
Operating Income/(Deficit)	616,191	(698,746)	188.19%
Non-Operating Income	<u>539,426</u>	<u>193,726</u>	178.45%
Increase/(Decrease) In Net Assets	\$ <u>1,155,617</u>	\$ <u>(505,020)</u>	328.83%

**Capital Assets.** As of June 30, 2009, the Organization had invested \$42,042,269 in capital assets net of related debt and accumulated depreciation. The principal capital asset of the Authority is the railroad itself which has been in the process of being upgraded since it was purchased by the Authority in 1986. The railroad received substantial improvements during the fiscal year ended June 30, 2009 from construction to upgrade the railroad from Algood to Monterey and normal improvements to the railroad, performed with funding from the Tennessee Department Of Transportation. These amounts represent a net increase (including additions and deductions) of \$2,304,406 over last year or an increase of 3.73% More detail about the Organization's capital assets is available in Note 6 to the financial statements.

The Organizations fiscal year 2009 capital budget projects approximately \$2,800,000 in capital expenditures funded by grants from the Transportation Equity Fund of the Tennessee Department of Transportation.

**Contacting The Organization's Financial Management**

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

**GOVERNMENT-WIDE STATEMENTS**

NASHVILLE & EASTERN RAILROAD AUTHORITY  
STATEMENT OF NET ASSETS  
JUNE 30, 2009

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 80,404
Accounts Receivable	216,629
Total Current Assets	297,033
Property & Equipment (Net of Accumulated Depreciation)	51,133,803
Total Assets	\$ 51,430,836
<b>LIABILITIES AND NET ASSETS</b>	
Accounts Payable	\$ 129,973
Accrued Legal Settlement	250,000
Current Portion of Long-Term Debt	205,519
Total Current Liabilities	585,492
Notes Payable	8,886,015
Total Liabilities	9,471,507
Net Assets	
Unrestricted	(82,940)
Invested In Capital Assets, Net of Related Debt and Depreciation	42,042,269
Total Net Assets	41,959,329
Total Liabilities and Net Assets	\$ 51,430,836

See Accompanying Notes To Financial Statements.

NASHVILLE & EASTERN RAILROAD AUTHORITY  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Functions/Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
Governmental Activities	Charges For Services	Grants and Contributions	
Infrastructure Development	\$ 1,592,724	\$ -	\$ 1,309,429
General & Administrative	<u>693,238</u>	<u>-</u>	<u>(693,238)</u>
	2,285,962	2,902,153	616,191
General Revenues			538,654
Surplus Rail & Property Sales			772
Interest Income			<u>539,426</u>
Total General Revenues, Special Items, & Transfers			1,155,617
Change In Net Assets			40,803,712
Net Assets - Beginning of Year			<u>\$ 41,959,329</u>
Net Assets - End of Year			<u><u>41,959,329</u></u>

See Accompanying Notes To Financial Statements

**FUND STATEMENTS**

NASHVILLE & EASTERN RAILROAD AUTHORITY  
BALANCE SHEET  
JUNE 30, 2009

ASSETS

Current Assets		
Cash and Cash Equivalents	\$	80,404
Accounts Receivable - Other		216,629
		<hr/>
Total Current Assets	\$	<u>297,033</u>

LIABILITIES AND FUND BALANCE

Current Liabilities		
Accounts Payable	\$	129,973
 Fund Balance		
Unrestricted		167,061
		<hr/>
Total Liabilities & Fund Balance	\$	<u>297,034</u>

Total Fund Balance Per Fund Financial Statements	\$	167,061
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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.		51,133,803
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Liabilities not to be settled within 60 days from year end are not reported in the fund financial statements.		(250,000)
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Long term debt is not included in the fund financial statements prepared on the modified accrual basis of accounting		(9,091,535)
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Net Assets	\$	<u>41,959,329</u>
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See Accompanying Notes to Financial Statements

NASHVILLE & EASTERN RAILROAD AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2009

	Year to Date
Revenues	
State of Tennessee	\$ 2,803,260
Nashville & Eastern Rail Corp.	98,893
Scrap Rail Sales	538,655
Interest Income	<u>772</u>
Total Revenues	3,441,580
Expenditures	
Rail Rehabilitation	2,317,207
Audit	7,500
Legal Services	96,861
Administration	30,503
Directors' Fees	3,000
Other Expense	2,232
Principal Payments On Loans	420,364
Interest Expense	653,881
Managing Director Fees	<u>42,000</u>
Total Expenditures	<u>3,573,548</u>
Excess of Expenditures Over Revenues	(131,968)
Other Financing Sources	
Loan Proceeds	<u>8,200</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(123,768)
Fund Balance - Beginning of Year	<u>290,829</u>
Fund Balance - End of Year	<u>\$ 167,061</u>
Net Change in Fund Balances - Total Governmental Funds	\$ (123,768)
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.	2,317,207
Proceeds from long term debt are included as other financing sources in the governmental funds, but are increases of debt in the statement of net assets in the government-wide statements.	(8,200)
Principal payments on long term debt are included as an expense in the governmental funds, but are reductions of long term debt in the statement of net assets in the government-wide statements.	420,364
Accrued interest deducted on the government-wide statement activities in the prior year, was paid in the current year and recognized in the fund financial statements.	392,738
Liabilities not settled within 60 days of the end of the year are not considered to be paid with current financial resources and are not recorded in the fund financial statements	(250,000)
Depreciation is not recorded in the fund financial statements but is reported in the government-wide financial statements.	<u>(1,592,724)</u>
Change in net assets	<u>\$ 1,155,617</u>

NASHVILLE & EASTERN RAILROAD AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

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

**B. Government-Wide and Fund Financial Statements**

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

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

*Fund Financial Statements*

Fund financial statements are provided for the governmental fund.

NASHVILLE & EASTERN RAILROAD AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

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

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

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

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

**D. Fund Types and Major Funds**

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

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

**E. Other Significant Policies**

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

**NOTE 2 – CASH AND CASH EQUIVALENTS**

At June 30, 2009 the bank balance of cash and cash equivalents is \$317,052. The bank balances were entirely secured by FDIC insurance or collateralized through the State of Tennessee Bank Collateral Pool.

NASHVILLE & EASTERN RAILROAD AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

**NOTE 3 – RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority has secured fidelity bonds on the officers as disclosed in the accompanying schedule. The lease agreement with Nashville and Eastern Railroad Corporation specified that the Corporation "...shall maintain insurance...in such amounts and covering such risks as is customarily carried by companies engaged in similar...businesses... and cause the Authority to be protected as an additional named insured." At year-end, there was no pending or threatened litigation according to the Authority's legal counsel. There have been no significant reductions in insurance coverage by the Authority. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**NOTE 4 – LEASES**

The Authority originally entered into a ten-year lease, dated August 28, 1986, with Nashville and Eastern Railroad Corporation to operate the line. Under the terms of the lease, the Authority is required to rehabilitate the line. After this rehabilitation, the operator will provide appropriate maintenance of the line. Currently, quarterly lease payments of 4% of the gross freight revenues on the first \$3,000,000; 5% between \$3,000,000 and \$4,000,000; and 6% of operating revenues over 4,000,000 are due. For commuter rail service, the Authority receives 10% of the gross commuter rail track usage or other passenger mileage fees. Finally, the Nashville and Eastern Railroad Corporation pays \$1,250 per month for the use of its maintenance facility in Lebanon to the Authority beginning in January 2005. This lease agreement has been renewed through the year 2053 in order to comply with the need to provide the long-term capabilities involved in the proposed commuter rail program between Lebanon and Nashville, Tennessee. Revenues from the lease totaled \$98,893 for the year ended June 30, 2009.

**NOTE 5 – CONTRACTS & GRANTS**

FEDERAL RAILROAD ADMINISTRATION (F.R.A.) – The FRA grant is an agreement between the State of Tennessee, acting through its Department of Transportation and the Authority. Funds provided from FRA grants are to be used for further rehabilitation work along the branchline. The payments create a contingent interest in the branchline for the State of Tennessee. If the Authority sells, abandons, or disposes of the branchline, they shall repay to the State the federal share as determined in accordance with attachment N to OMB Circular No. A102. The Authority received no federal funds for the year ended June 30, 2009.

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

NASHVILLE & EASTERN RAILROAD AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

**NOTE 6 – FIXED ASSETS**

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

A summary of fixed assets for the fiscal year ended June 30, 2009 is presented below:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u> <u>(Deductions)</u>	<u>Balance</u> <u>June 30, 2009</u>
<u>Nondepreciable Assets</u>			
Land	\$ 476,306	\$ 1,000	\$ 477,306
Total Nondepreciable Assets	476,306	1,000	477,306
<u>Depreciable Assets</u>			
Buildings	658,522	11,801	670,323
Branchline and Right of Way	2,168,227	-	2,168,227
Rail Rehabilitation	58,538,299	2,304,407	60,842,706
	<u>\$ 61,841,354</u>	<u>\$ 2,317,208</u>	<u>\$ 64,158,562</u>
Accumulated Depreciation by Major Asset Class			
Buildings	\$ 208,747	\$ 17,796	\$ 226,543
Branchline and Right of Way	1,328,276	54,206	1,382,482
Rail Rehabilitation	9,895,012	1,520,722	11,415,734
	<u>\$ 11,432,035</u>	<u>\$ 1,592,724</u>	<u>\$ 13,024,759</u>
Property & Equipment Net of Accumulated Depreciation			<u><u>\$ 51,133,803</u></u>

Depreciation expense for the fiscal year ended June 30, 2009 was \$1,592,724.

NASHVILLE & EASTERN RAILROAD AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

**NOTE 7 – COMMUTER RAIL**

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

Construction on the commuter rail project was completed during the fiscal year ended June 30, 2007. Those improvements have been capitalized in the government wide financial statements of the Nashville & Eastern Railroad Authority and are being depreciated over an estimated useful life of 40 years.

The commuter rail system comes as an improvement to the Authority's already existing railroad assets. Commuter rail could significantly increase the amount of funds received by NERA from their share of operating revenues of the railroad under the lease described in Note 4.

**NOTE 8 - BUDGET TO ACTUAL**

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

**NOTE 9 – NOTES PAYABLE**

As mentioned in note 7, the Nashville & Eastern Railroad Authority established a line of credit with First Tennessee Bank in the amount of \$2.5 million to fund 10% of the cost of the first stage of the commuter rail program. At June 30, 2009, the Authority had an outstanding balance of \$1,669,087 on that line which was used to fund the commuter rail costs. The outstanding balance will be amortized on a 16 year schedule at 5.95% interest with annual payments of \$250,000 being due beginning June 1, 2006 through June 1, 2021.

NASHVILLE & EASTERN RAILROAD AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

**NOTE 9 – NOTES PAYABLE (Continued)**

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

	<u>Principal</u>	<u>Interest</u>
2010	\$ 147,841	\$ 102,155
2011	156,886	93,114
2012	166,479	83,521
2013	176,659	73,341
2014	187,462	62,538
2015 – 2018	<u>833,760</u>	<u>129,780</u>
	<u>\$ 1,669,087</u>	<u>\$ 544,449</u>

The Nashville & Eastern Railroad Authority made one payment during the fiscal year ended June 30, 2009.

In September of 2006, the Nashville & Eastern Railroad Authority was approved for a \$7,202,000 loan from the United States Department of Agriculture to make the necessary improvements to the branch line between the cities of Algood and Monterey. The loan accrues interest at 4.125% per annum and is secured by the improvements being made to the railroad. Beginning in December of 2008, annual payments of principal and interest in the amount of \$404,894 will be due through January of 2045. A schedule of principal and interest payments to maturity on this loan is presented below.

June	<u>Principal</u>	<u>Interest</u>
2010	\$ 57,678	\$ 347,217
2011	96,219	308,676
2012	100,252	304,643
2013	104,453	300,442
2014	108,831	296,064
2015 - 2019	616,521	1,407,954
2020 – 2024	757,011	1,267,464
2025 – 2029	929,516	1,094,959
2030 – 2034	1,141,331	883,444
2035 – 2039	1,401,413	623,062
2040 – 2044	1,720,761	303,714
2045	<u>388,461</u>	<u>16,433</u>
	<u>\$ 7,422,447</u>	<u>\$ 7,154,072</u>

NASHVILLE & EASTERN RAILROAD AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

**NOTE 10 – ACCRUED LEGAL SETTLEMENT**

During the renovation of the railroad from Algood, Tennessee to Monterey, Tennessee, construction of the railroad required relocation of a pipeline located on the Authority's right of way. The cost of moving the pipeline was the subject of a legal dispute. In December of 2009, the Nashville & Eastern Railroad Authority agreed to pay \$250,000 in full and complete settlement of the related lawsuit.

INTERNAL CONTROL AND COMPLIANCE SECTION

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

To the Board of Directors  
Nashville & Eastern Railroad Authority

We have audited the financial statements of the governmental activities, of Nashville & Eastern Railroad Authority, as of and for the year ended June 30, 2009, which collectively comprise the Nashville & Eastern Railroad Authority's basic financial statements and have issued our report thereon dated February 25, 2010. 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 Nashville & Eastern Railroad Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Nashville & Eastern Railroad Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nashville & Eastern Railroad Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 Nashville & Eastern Railroad 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 Nashville & Eastern Railroad Authority's financial statements that is more than inconsequential will not be prevented or detected by the Nashville & Eastern Railroad Authority's internal control. We consider the deficiency described in finding #1 in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

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 Nashville & Eastern Railroad Authority's internal control.

Our consideration of the 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 the internal

control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

#### Compliance and Other Matters

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

Nashville & Eastern Railroad Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Nashville & Eastern Railroad Authority's response and, accordingly, we express no opinion on it.

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

*Dempsey, Vantrease & Follis P.C.*  
Lebanon, Tennessee

February 25, 2010

SUPPLEMENTARY SCHEDULES

Nashville Eastern Railroad Authority  
Schedule of Expenditures of Federal Awards  
And State Contract Expenditures  
June 30, 2009

Number	Grantor Agency	Balance July 1, 2008	Receipts	Expenditures	Balance June 30, 2009
Cont. # Z07033916	TN Dept of Transportation	\$ 216,591	\$ 325,839	\$ 109,248	-
Cont. # Z04019844	TN Dept of Transportation	3,943	-	-	3,943
Cont. # Z08020920	TN Dept of Transportation	140,666	447,117	306,451	-
Cont. # Z08020876	TN Dept of Transportation	-	59,888	59,888	-
Cont. # Z07033875	TN Dept of Transportation	-	1,842	1,842	-
Cont. # Z08020894	TN Dept of Transportation	-	3,744	3,744	-
Cont. # Z08020936	TN Dept of Transportation	-	7,849	7,849	-
Cont. # Z09213044	TN Dept of Transportation	-	32,830	32,830	-
Cont. # Z09213061	TN Dept of Transportation	-	73,414	73,414	-
Cont. # Z09213084	TN Dept of Transportation	-	255,000	255,000	-
Cont. # Z09213085	TN Dept of Transportation	-	413,100	413,100	-
Cont. # Z09213088	TN Dept of Transportation	-	1,151,115	1,240,507	89,392
Cont. # Z09213094	TN Dept of Transportation	-	275,937	299,387	23,450
Reconciliation to Fund Financial Statements		\$ 361,200	\$ 3,047,675	\$ 2,803,260	\$ 116,785
Prior Year Accounts Receivable			(361,200)		
Current Year Accounts Receivable			116,785		
Revenues Per Fund Financial Statements			<u>\$ 2,803,260</u>		

Note A - Basis of Accounting

The accompanying schedule of expenditures of federal awards and expenditures of state contracts includes the federal grant and state contract activity of the Nashville & Eastern Railroad Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and *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.

NASHVILLE & EASTERN RAILROAD AUTHORITY  
SCHEDULE OF SALARIES AND FIDELITY BONDS  
OF PRINCIPAL OFFICIALS (UNAUDITED)  
JUNE 30, 2009

Official	Title	Annual Salary	Bond
Mike Jennings	Chairman	0	200,000
Eldon Leslie	Vice-Chairman	0	200,000
Henry Schumpf	Treasurer	0	200,000
Jerry Futrell	Secretary	0	200,000
Val Kelley	Managing Director	0	200,000

See Accompanying Notes To Financial Statements

**NASHVILLE & EASTERN RAILROAD AUTHORITY**  
**SCHEDULE OF FINDINGS**  
**Year Ended June 30, 2009**

**Finding #1**

#1 – The entity does not have an individual with the background and suitable skills to produce financial statements in accordance with generally accepted accounting principles. Books are kept internally on the cash basis which is reconcilable to generally accepted accounting principles.

**Managements Response**

Our funding does not allow us to hire an employee with the ability to produce financial statements in accordance with generally accepted accounting principles. While we do have people who are knowledgeable of basic accounting principles, it is of more value to us to have people who are trained in construction and railroad operations.