

NORTHEAST TENNESSEE RAILROAD AUTHORITY

**FINANCIAL STATEMENTS
WITH
SUPPLEMENTAL FINANCIAL INFORMATION**

JUNE 30, 2010 AND 2009

NORTHEAST TENNESSEE RAILROAD AUTHORITY

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JUNE 30, 2010 AND 2009

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NORTHEAST TENNESSEE RAILROAD AUTHORITY

INTRODUCTORY SECTION

JUNE 30, 2010 AND 2009

**NORTHEAST TENNESSEE RAILROAD AUTHORITY
ORGANIZATION
JUNE 30, 2010 AND 2009**

AUTHORITY MEMBERS

NAME	POSITION
Ricky Keeton	Chairperson
Rex Lynch	Member
William Baird	Member
Don Stansberry, III	At Large Director

NORTHEAST TENNESSEE RAILROAD AUTHORITY
FINANCIAL SECTION
JUNE 30, 2010 AND 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

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 years ended June 30, 2010 and 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 audits 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 audits 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 audits provide a reasonable basis for our opinion.

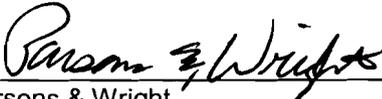
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the major fund as of June 30, 2010 and 2009, and the respective changes in financial position for the years ended June 30, 2010 and June 30, 2009 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 October 27, 2010, 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 should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 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. We 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information

because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were performed for the purpose of forming an opinion on Northeast Tennessee Railroad Authority's financial statements taken as a whole. The schedules listed in the table of contents as supplemental financial information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects, in relation to the financial statements taken as a whole.



Parsons & Wright
Certified Public Accountants
Kingston, Tennessee

October 27, 2010

**NORTHEAST TENNESSEE RAILROAD AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

The following is a narrative overview and analysis of the Authority's financial performance for the year ended June 30, 2010. 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, 2010, 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, 2010:

- The Authority's net assets increased \$571,955 over the course of this year's operations. The change in net assets is a 75.5% increase from the fiscal year ended June 30, 2009.
- During the year, the Authority's revenues exceeded expenses by \$571,955 primarily due to increased grants from the Tennessee Department of Transportation.
- The Authority's operating expenses increased 67% in the fiscal year ended June 30, 2010.
- The Authority's cash balance decreased \$91,679 from June 30, 2009 to June 30, 2010. The decrease is primarily due to the increase in property improvements.
- The Authority's liabilities decreased \$17,466 over the fiscal year ended June 30, 2010.

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 Northeast 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.

**NORTHEAST TENNESSEE RAILROAD AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

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 \$571,955 from June 30, 2009 to June 30, 2010.

Northeast Tennessee Railroad Authority
Net Assets
June 30, 2010 and 2009

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>% Change</u>
Current Assets	\$ 20,462	\$ 120,044	-83%
Capital Assets	1,309,247	655,176	100%
Total Assets	<u>\$ 1,329,709</u>	<u>\$ 775,220</u>	72%
Current Liabilities	\$ -	\$ 17,466	-100%
Total Liabilities	-	17,466	-100%
Net Assets:			
Invested in Capital Assets	\$ 1,309,247	\$ 655,176	100%
Unrestricted Net Assets	20,462	102,578	-80%
Total Net Assets	<u>1,329,709</u>	<u>757,754</u>	75%
Total Liabilities and Net Assets	<u>\$ 1,329,709</u>	<u>\$ 775,220</u>	72%

Changes in Net Assets – The Authority's total operating revenues increased \$429,143 from fiscal year 2009 to fiscal year 2010. The Authority's primary sources of revenue are appropriations from the Tennessee Department of Transportation for railroad improvements and, in the previous year, contributions from National Coal Railroad, Inc. Revenues from the Department of Transportation

**NORTHEAST TENNESSEE RAILROAD AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

increased \$679,143. Contributions from National Coal Railroad, Inc. decreased \$250,000. The total cost of all programs increased by \$64,404 due mainly to increased depreciation.

Changes in Net Assets

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>% Change</u>
Total Operating Revenues	\$ 732,003	\$ 302,860	142%
Total Operating Expenses	<u>(160,517)</u>	<u>(96,112)</u>	67%
	<u>\$ 571,486</u>	<u>\$ 206,748</u>	176%

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, 2010 AND 2009**

	<u>Governmental Activities</u>	
	<u>June 30, 2010</u>	<u>June 30, 2009</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 20,462	\$ 112,141
Grants Receivable	0	7,903
Total Current Assets	\$ 20,462	\$ 120,044
PROPERTY AND EQUIPMENT		
Property Improvements	\$ 1,492,714	\$ 557,246
Less: Accumulated Depreciation	(183,467)	(57,814)
Construction in Progress	0	155,744
Net Property and Equipment	\$ 1,309,247	\$ 655,176
TOTAL ASSETS	\$ 1,329,709	\$ 775,220
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 0	\$ 12,684
Deferred Revenue	0	4,782
TOTAL LIABILITIES	\$ 0	\$ 17,466
NET ASSETS		
Invested in Capital Assets		
Net of Related Depreciation	\$ 1,309,247	\$ 655,176
Unrestricted	20,462	102,578
TOTAL NET ASSETS	\$ 1,329,709	\$ 757,754
TOTAL LIABILITIES AND NET ASSETS	\$ 1,329,709	\$ 775,220

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

**NORTHEAST TENNESSEE RAILROAD AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

YEAR ENDED JUNE 30, 2010

<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	\$ 149,510	\$ 0	\$ 732,003	\$ 582,493
General & Administrative	<u>11,007</u>	<u>0</u>	<u>0</u>	<u>(11,007)</u>
	<u>\$ 160,517</u>	<u>\$ -</u>	<u>\$ 732,003</u>	571,486
General Revenues:				
				<u>469</u>
				469
				\$ 571,955
				<u>757,754</u>
				<u>\$ 1,329,709</u>

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>

FUND STATEMENTS

**NORTHEAST TENNESSEE RAILROAD AUTHORITY
BALANCE SHEET
JUNE 30, 2010**

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 20,462	\$ 112,141
Grants Receivable	<u>0</u>	<u>7,903</u>
TOTAL ASSETS	<u>\$ 20,462</u>	<u>\$ 120,044</u>
LIABILITIES AND FUND BALANCE		
CURRENT LIABILITIES		
Accounts Payable	\$ 0	\$ 12,684
Deferred Revenue	<u>0</u>	<u>4,782</u>
TOTAL LIABILITIES	<u>\$ 0</u>	<u>\$ 17,466</u>
FUND BALANCE		
Restricted	\$ 0	\$ 0
Unrestricted	<u>20,462</u>	<u>102,578</u>
TOTAL NET ASSETS	<u>20,462</u>	<u>102,578</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 20,462</u>	<u>\$ 120,044</u>
Total Fund Balance Per Fund Financial Statements	\$ 20,462	\$ 102,578
 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>1,309,247</u>	<u>655,176</u>
 Net Assets	<u>\$ 1,329,709</u>	<u>\$ 757,754</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 YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
REVENUE		
Grant Revenue	\$ 732,003	\$ 52,860
Interest Income	469	721
Contributions From National Coal	<u>0</u>	<u>250,000</u>
TOTAL REVENUES	<u>\$ 732,472</u>	<u>\$ 303,581</u>
EXPENDITURES		
Rail Maintenance/Rehabilitation	\$ 803,581	\$ 191,188
Accounting and Legal	5,000	5,000
Other	<u>6,007</u>	<u>176</u>
TOTAL EXPENDITURES	<u>\$ 814,588</u>	<u>\$ 196,364</u>
EXCESS OF EXPENDITURES OVER REVENUES	\$ (82,116)	\$ 107,217
FUND BALANCE, BEGINNING OF YEAR	<u>107,217</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u>\$ 25,101</u>	<u>\$ 107,217</u>
Net Change in Fund Balances - Total Governmental Funds	\$ (82,116)	\$ 107,217
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.	779,724	155,744
Depreciation is not recorded in the fund financial statements but is reported in the government-wide financial statements.	<u>(125,653)</u>	<u>(55,492)</u>
Change in Net Assets	<u>\$ 571,955</u>	<u>\$ 207,469</u>

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

**NORTHEAST TENNESSEE RAILROAD AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 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 YEARS ENDED JUNE 30, 2010 AND 2009**

NOTE A – SUMMARY OF ACCOUNTING POLICIES - Continued

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>6/30/2009 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/2010 Balance</u>
Improvements to Track	10 Years	\$ 4,400	\$ 935,468	\$ 0	\$ 939,868
Improvements to Bridge	10 Years	552,846	0	0	552,846
Construction in Progress		155,744	0	(155,744)	-
		<u>\$ 712,990</u>	<u>\$ 935,468</u>	<u>\$ (155,744)</u>	<u>\$ 1,492,714</u>
Accumulated Depreciation by Major Asset Class					
Improvements to Track		\$ (456)	\$ (439)	\$ 0	\$ (895)
Improvements to Bridge		<u>(57,358)</u>	<u>(125,214)</u>	<u>0</u>	<u>(182,572)</u>
		<u>(57,814)</u>	<u>(125,653)</u>	<u>-</u>	<u>(183,467)</u>
Net Property and Improvements		<u>\$ 655,176</u>	<u>\$ 809,815</u>	<u>\$ (155,744)</u>	<u>\$ 1,309,247</u>

Depreciation expense for the year ended June 30, 2010 and 2009 was \$125,653 and \$55,492, respectively.

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, 2010 and June 30, 2009 the bank balance of cash and cash equivalents was \$20,462 and \$112,141, respectively. The bank balances were entirely secured by FDIC insurance.

**NORTHEAST TENNESSEE RAILROAD AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 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 been awarded \$2,581,917 in grants for rail line improvements to be made through June 2013. 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, 2010**

<u>Number</u>	<u>Grantor Agency</u>	<u>Balance July 1, 2009</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Balance June 30, 2010</u>
Cont. #Z-09213-045	TN Dept of Transportation	\$ (7,903)	\$ 14,538	\$ (6,635)	\$ -
Cont. #Z-08020-877	TN Dept of Transportation	-	8,522	(8,522)	-
Cont. #Z-08020-950	TN Dept of Transportation	-	701,076	(701,076)	-
Cont. #Z-10220-817	TN Dept of Transportation	-	9,204	(9,204)	-
Cont. #Z-10220-817	TN Dept of Transportation	-	1,783	(1,783)	-
TOTAL		<u>\$ (7,903)</u>	<u>\$ 735,123</u>	<u>\$ (727,220)</u>	<u>\$ -</u>

Note> The accompanying Schedule of Expenditures of Federal Awards and Expenditures of State Assistance includes the federal grants and state contract activity of Northeast Tennessee Railroad Authority 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, 2010

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, 2010 and for the year ended June 30, 2010, and have issued our report thereon dated October 27, 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 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.

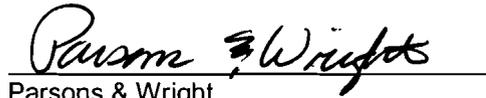
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies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

A handwritten signature in cursive script, reading "Parsons & Wright", is written over a horizontal line.

Parsons & Wright
Certified Public Accountants
Kingston, Tennessee

October 27, 2010