

**NORTHEAST TENNESSEE RAILROAD AUTHORITY**

**FINANCIAL STATEMENTS  
WITH  
SUPPLEMENTAL FINANCIAL INFORMATION**

**JUNE 30, 2011 AND 2010**

**NORTHEAST TENNESSEE RAILROAD AUTHORITY**

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**JUNE 30, 2011 AND 2010**

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**NORTHEAST TENNESSEE RAILROAD AUTHORITY**

**INTRODUCTORY SECTION**

**JUNE 30, 2011 AND 2010**

**NORTHEAST TENNESSEE RAILROAD AUTHORITY  
ORGANIZATION  
JUNE 30, 2011 AND 2010**

**AUTHORITY MEMBERS**

<b>NAME</b>	<b>POSITION</b>
Jeff Tibbals	Chairperson
Myron Iwanski	Member
William Baird	Member
Don Stansberry, III	At Large Director
Mark Morgan	At Large Director

**NORTHEAST TENNESSEE RAILROAD AUTHORITY**

**FINANCIAL SECTION**

**JUNE 30, 2011 AND 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

**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, 2011 and June 30, 2010, 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.

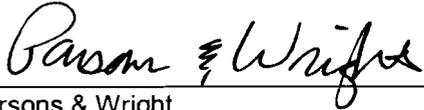
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the major fund as of June 30, 2011 and 2010, and the respective changes in financial position for the years ended June 30, 2011 and June 30, 2010 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 September 7, 2011, 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.

A handwritten signature in cursive script that reads "Parsons & Wright". The signature is written in black ink and is positioned above a horizontal line.

Parsons & Wright  
Certified Public Accountants  
Kingston, Tennessee

September 7, 2011

**NORTHEAST TENNESSEE RAILROAD AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011**

The following is a narrative overview and analysis of the Authority's financial performance for the year ended June 30, 2011. 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, 2011, 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, 2011:

- The Authority's net assets increased \$60,960 over the course of this year's operations. The change in net assets is a 4.6% increase from the fiscal year ended June 30, 2010.
- During the year, the Authority's revenues exceeded expenses by \$60,960 primarily due to grants from the Tennessee Department of Transportation.
- The Authority's operating expenses increased 11% from the fiscal year ended June 30, 2010 over the fiscal year ended June 30, 2011.
- The Authority's cash balance decreased \$3,859 from June 30, 2010 to June 30, 2011. The decrease is primarily due to the payment of expenses during the year.

**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, 2011**

**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 \$60,960 from June 30, 2010 to June 30, 2011.

Northeast Tennessee Railroad Authority  
Net Assets  
June 30, 2011 and 2010

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>% Change</u>
Current Assets	\$ 16,603	\$ 20,462	-19%
Capital Assets	1,374,066	1,309,247	5%
<b>Total Assets</b>	<u>\$ 1,390,669</u>	<u>\$ 1,329,709</u>	5%
Current Liabilities	\$ -	\$ -	0%
<b>Total Liabilities</b>	-	-	0%
<b>Net Assets:</b>			
Invested in Capital Assets	\$ 1,374,066	\$ 1,309,247	5%
Unrestricted Net Assets	16,603	20,462	-19%
<b>Total Net Assets</b>	<u>1,390,669</u>	<u>1,329,709</u>	5%
<b>Total Liabilities and Net Assets</b>	<u>\$ 1,390,669</u>	<u>\$ 1,329,709</u>	5%

**Changes in Net Assets** – The Authority's total operating revenues decreased \$493,046 from fiscal year 2010 to fiscal year 2011. The Authority's primary sources of revenue are appropriations from the Tennessee Department of Transportation for railroad improvements. Revenues from the Department of

Transportation decreased \$493,046. The total cost of all programs increased by \$17,574 due mainly to increased depreciation.

**NORTHEAST TENNESSEE RAILROAD AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011**

**Changes in Net Assets**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>% Change</u>
Total Operating Revenues	\$ 238,957	\$ 732,003	-67%
Total Operating Expenses	(178,091)	(160,517)	11%
	<u>\$ 60,866</u>	<u>\$ 571,486</u>	-89%

**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, 2011 AND 2010**

	<u>Governmental Activities</u>	
	June 30, 2011	June 30, 2010
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 16,603	\$ 20,462
<i>Total Current Assets</i>	<u>\$ 16,603</u>	<u>\$ 20,462</u>
<b>PROPERTY AND EQUIPMENT</b>		
Property Improvements	\$ 1,708,369	\$ 1,492,714
Less: Accumulated Depreciation	<u>(334,303)</u>	<u>(183,467)</u>
<i>Net Property and Equipment</i>	<u>\$ 1,374,066</u>	<u>\$ 1,309,247</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 1,390,669</u></u>	<u><u>\$ 1,329,709</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>NET ASSETS</b>		
Invested in Capital Assets		
Net of Related Depreciation	\$ 1,374,066	\$ 1,309,247
Unrestricted	<u>16,603</u>	<u>20,462</u>
<b>TOTAL NET ASSETS</b>	<u><u>\$ 1,390,669</u></u>	<u><u>\$ 1,329,709</u></u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 1,390,669</u></u>	<u><u>\$ 1,329,709</u></u>

**NORTHEAST TENNESSEE RAILROAD AUTHORITY  
STATEMENT OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

YEAR ENDED JUNE 30, 2011

<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	\$ 174,138	\$ 0	\$ 238,957	\$ 64,819
General & Administrative	<u>3,953</u>	<u>0</u>	<u>0</u>	<u>(3,953)</u>
	<u>\$ 178,091</u>	<u>\$ -</u>	<u>\$ 238,957</u>	60,866
General Revenues:				
				<u>94</u>
				94
				\$ 60,960
				<u>1,329,709</u>
				<u>\$ 1,390,669</u>

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>

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

**FUND STATEMENTS**

**NORTHEAST TENNESSEE RAILROAD AUTHORITY  
BALANCE SHEET  
JUNE 30, 2011 AND 2010**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ <u>16,603</u>	\$ <u>20,462</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>16,603</u></b>	<b>\$ <u>20,462</u></b>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>FUND BALANCE</b>		
Restricted	\$ 0	\$ 0
Unrestricted	<u>16,603</u>	<u>20,462</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>16,603</u></b>	<b>\$ <u>20,462</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>16,603</u></b>	<b>\$ <u>20,462</u></b>
Total Fund Balance Per Fund Financial Statements	\$ 16,603	\$ 20,462
 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>1,374,066</u>	<u>1,309,247</u>
Net Assets	<b>\$ <u>1,390,669</u></b>	<b>\$ <u>1,329,709</u></b>

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, 2011 AND 2010**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
<b>REVENUE</b>		
Grant Revenue	\$ 238,957	\$ 732,003
Interest Income	<u>94</u>	<u>469</u>
<b>TOTAL REVENUES</b>	<u>\$ 239,051</u>	<u>\$ 732,472</u>
<b>EXPENDITURES</b>		
Rail Maintenance/Rehabilitation	\$ 238,957	\$ 803,581
Accounting and Legal	3,750	5,000
Other	<u>203</u>	<u>6,007</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 242,910</u>	<u>\$ 814,588</u>
<b>EXCESS OF EXPENDITURES OVER REVENUES</b>	\$ (3,859)	\$ (82,116)
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>25,101</u>	<u>107,217</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 21,242</u>	<u>\$ 25,101</u>
Net Change in Fund Balances - Total Governmental Funds	\$ (3,859)	\$ (82,116)
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.	215,655	779,724
Depreciation is not recorded in the fund financial statements but is reported in the government-wide financial statements.	<u>(150,836)</u>	<u>(125,653)</u>
Change in Net Assets	<u>\$ 60,960</u>	<u>\$ 571,955</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, 2011 AND 2010**

**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, 2011 AND 2010**

**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>6/30/2010 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/2011 Balance</u>
Improvements to Track	10 Years	\$ 939,868	\$ 215,655	\$ 0	\$ 1,155,523
Improvements to Bridge	10 Years	552,846	0	0	552,846
Construction in Progress		-	0	-	-
		<u>\$ 1,492,714</u>	<u>\$ 215,655</u>	<u>\$ -</u>	<u>\$ 1,708,369</u>
Accumulated Depreciation by Major Asset Class					
Improvements to Track		\$ (895)	\$ (2,235)	\$ 0	\$ (3,130)
Improvements to Bridge		<u>(182,572)</u>	<u>(148,601)</u>	<u>0</u>	<u>(331,173)</u>
		<u>\$ (183,467)</u>	<u>\$ (150,836)</u>	<u>\$ -</u>	<u>\$ (334,303)</u>
Net Property and Improvements		<u>\$ 1,309,247</u>	<u>\$ 64,819</u>	<u>\$ -</u>	<u>\$ 1,374,066</u>

Depreciation expense for the year ended June 30, 2011 and 2010 was \$150,836 and \$125,653, 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, 2011 and June 30, 2010 the bank balance of cash and cash equivalents was \$16,603 and \$20,462, respectively. The bank balances were entirely secured by FDIC insurance.

**NORTHEAST TENNESSEE RAILROAD AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

**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 \$2,716,049 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 R.J. Corum Railroad Group, LLC. R.J. Corum Railroad Group, LLC 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 R.J. Corum Railroad Group, LLC.

**SUPPLEMENTARY SCHEDULES**

**NORTHEAST TENNESSEE RAILROAD AUTHORITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE CONTRACT EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Number</u>	<u>Grantor Agency</u>	<u>Balance July 1, 2010</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Balance June 30, 2011</u>
Cont. #GG-10-30838-00	TN Dept of Transportation	\$ -	\$ 7,836	\$ (7,836)	\$ -
Cont. #Z-08-020877-00	TN Dept of Transportation	-	5,881	(5,881)	-
Cont. #GG-11-33095-00	TN Dept of Transportation	-	215,655	(215,655)	-
Cont. #Z-10-220817-00	TN Dept of Transportation	-	9,585	(9,585)	-
<b>TOTAL</b>		<u>\$ -</u>	<u>\$ 238,957</u>	<u>\$ (238,957)</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, 2011**

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, 2011 and for the year ended June 30, 2011, and have issued our report thereon dated September 7, 2011. 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

  
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Parsons & Wright  
Certified Public Accountants  
Kingston, Tennessee

September 7, 2011