

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY  
FINANCIAL STATEMENTS  
AND  
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS  
JUNE 30, 2010

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY  
REPORT OF AUDIT  
JUNE 30, 2010

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MONTGOMERY COUNTY RAIL SERVICE AUTHORITY  
GENERAL INFORMATION  
JUNE 30, 2010

GENERAL

The Montgomery County Rail Service Authority was established by resolution of the Montgomery County Commission on July 11, 1988, pursuant to Tennessee Code Annotated, Section 7-56-201. The Authority was established for the purpose of providing a continuation of rail service within the area of Montgomery County.

The Authority is governed by a board of directors composed of four members. The members serve a term of four years with the original members serving staggered terms.

The Authority's accounting is handled by and through the office of the Montgomery County Accounts and Budgets.

BOARD OF DIRECTORS

Carolyn Bowers, Chairman, County Mayor

Johnny Piper, City Mayor

Stan Williams, Director

Carl Wilson, Director



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Board of Directors  
Montgomery County Rail Service Authority  
Montgomery County Courthouse  
Clarksville, TN 37040

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities of Montgomery County Rail Service Authority as of and for the year ended June 30, 2010, which collectively comprise Montgomery County Rail Service Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Montgomery County Rail Service Authority's management. Our responsibility is to express an opinion 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, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *requirements prescribed by the Comptroller of the Treasury, State of Tennessee, as detailed in the Audit Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Montgomery County Rail Service Authority as of June 30, 2010, 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 December 30, 2010, on our consideration of Montgomery County Rail Service 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 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 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Montgomery County Rail Service Authority's financial statements as a whole. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of state financial assistance and expenditures is presented for purposes of additional analysis as per requirements prescribed by the Comptroller of the Treasury, State of Tennessee, as detailed in the Audit Manual, and is also not a required part of the financial statements. The schedule of state financial assistance and expenditures is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Thurman Campbell Group, PLC*

December 30, 2010

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2010

As management of the Montgomery County Rail Service Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2010. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Authority's financial statements, which follow this narrative.

Financial Highlights

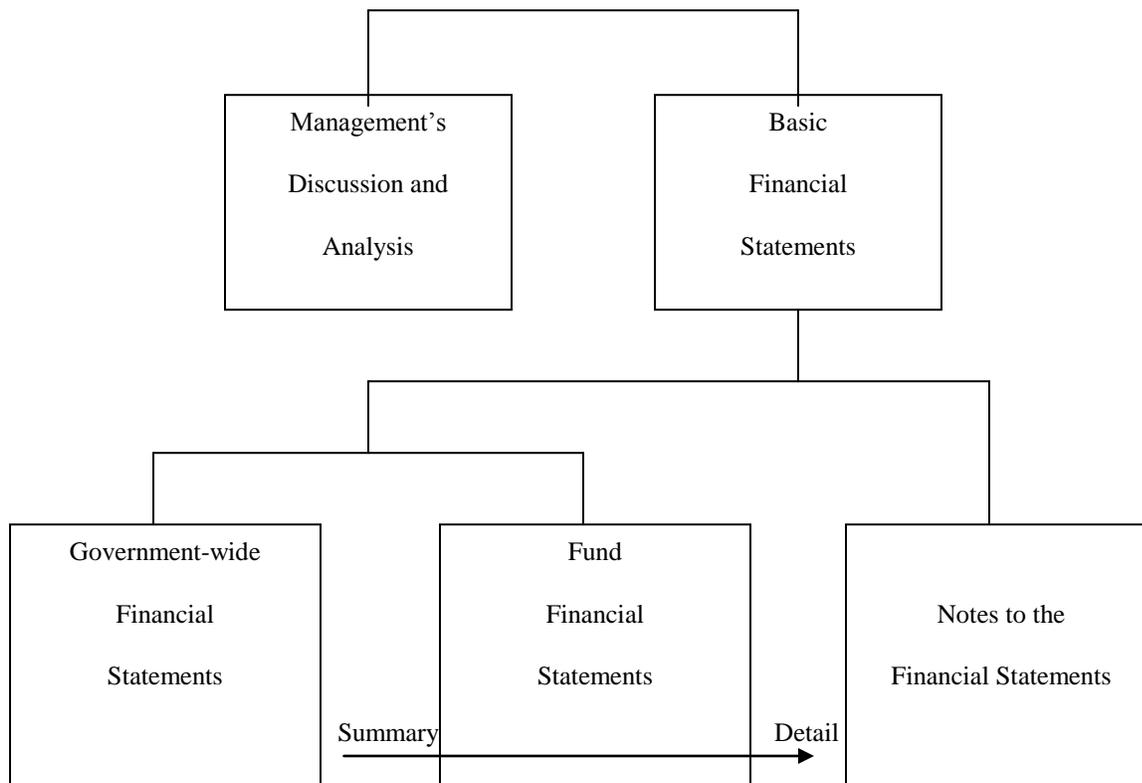
- The assets of the Montgomery County Rail Service Authority exceeded its liabilities at the close of the fiscal year by \$24,683 net assets.
- The Authority's total net assets decreased by \$3,000, due to decreases in the governmental type activities of net assets.
- As of the close of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$24,683 a decrease of \$3,000 in comparison with the prior year. Approximately 100 percent of this amount is available for spending at the Authority's discretion.
- At the end of the current fiscal year, unreserved fund balance for the Authority was \$24,683 or 7 percent of the Authority's expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Montgomery County Rail Service Authority's basic financial statements. The joint venture's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the joint venture through the use of government-wide statements and fund financial statements. The government wide and fund financial statements are not presented separately because they are essentially the same. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Authority.

## Required Components of Annual Financial Report

Figure 1



### Basic Financial Statements

The first two statements (Pages 9 and 10) in the basic financial statements contain both the Government-wide and the Fund Financial Statements. Government-wide financial statements provide both short and long-term information about the Authority's financial status.

Fund financial statements focus on the activities of the individual parts of the Authority. These statements normally provide more detail than the government-wide statements; however in the case of the Authority the statements are identical. The Authority's fund financial statements only contain governmental fund statements.

The next section of the basic financial statements is the notes to financial statements. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details on the Authority.

### Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Authority's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Authority's financial status as a whole.

The two government-wide statements report the Authority's net assets and how they have changed. Net assets are the difference between the Authority's total assets and total liabilities. Measuring net assets is one way to gauge the Authority's financial condition.

The governmental activities include all of the Authority’s basic services. State and Federal grant funds finance all of these activities. The government-wide financial statements are on pages 9 and 10 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the Authority’s most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Montgomery County Rail Service Authority, like all other governmental entities in Tennessee, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes. All of the funds of the Authority are governmental funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. All of the Authority’s basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Authority’s programs.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 11 through 13 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain supplementary information concerning the Authority’s progress in receiving and expending State financial assistance. Other supplementary information can be found beginning on page 14 of this report.

Government-Wide Financial Analysis

The Montgomery County Rail Service Authority’s Statement of Net Assets

Figure 2

	Governmental Activities	
	2010	2009
Current and other assets	\$ 37,528	\$ 27,683
Total assets	<u>37,528</u>	<u>27,683</u>
Long-term liabilities outstanding		
Other liabilities	12,845	-
Total liabilities	<u>12,845</u>	<u>-</u>
Net assets:		
Unrestricted	24,683	27,683
Total net assets	<u>\$ 24,683</u>	<u>\$ 27,683</u>

As noted earlier, net assets may serve over time as one useful indicator of a government’s financial condition. The assets of the Authority exceeded liabilities by \$24,683 as of June 30, 2010. The Authority’s net assets decreased by \$3,000 for the fiscal year ended June 30, 2010. The net assets of the Authority of \$24,683 are unrestricted.

Several particular aspects of the Authority’s financial operations influenced the total unrestricted governmental net assets:

- Continued funding of the Authority’s operations due to grant funding obtained from the State of Tennessee
- The Authority exists to provide improvements to the Montgomery County rail system through reimbursable grants.

The Montgomery County Rail Service Authority’s Statement of Changes in Net Assets

Figure 3

	Governmental Activities	
	2010	2009
Revenues:		
Program revenues:		
Operating grants and contributions	\$ 349,971	\$ 15,938
Total revenues	<u>349,971</u>	<u>15,938</u>
Expenses:		
Engineering Inspections	349,971	15,938
Legal and Audit Fees	3,000	2,800
Total expenses	<u>352,971</u>	<u>18,738</u>
Increase (Decrease) in net assets	(3,000)	(2,800)
Net assets, July 1	<u>27,683</u>	<u>30,483</u>
Net assets, June 30	<u>\$ 24,683</u>	<u>\$ 27,683</u>

Governmental activities. Governmental activities decreased the Authority net assets by \$3,000, thereby accounting for 100% of the total decline in the net assets of the Authority. Key elements of this decrease are as follows:

- The Authority’s grants revenue and expenses equal.
- The only expense of the Authority not covered by the grants is the yearly audit fee.

Financial Analysis of Governmental Funds

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Authority’s governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Authority’s financing requirements. Specifically, unreserved fund balance can be a useful measure of a government’s net resources available for spending at the end of the fiscal year.

The Authority has one fund that is the chief operating fund of the Authority. At the end of the current fiscal year, unreserved fund balance of the fund was \$24,683, while total fund balance was also \$24,683. As a measure of the general fund’s liquidity, it may be useful to compare both unreserved fund balance to total fund expenditures. Unreserved fund balance represents 7 percent of total General Fund expenditures.

At June 30, 2010, the governmental funds of the Authority reported a combined fund balance of \$24,683, an 11 percent decrease compared to last year.

### Economic Factors and Highlight's for Next Fiscal Years

The following key economic indicators reflect the growth and prosperity of the Montgomery County Rail Service Authority.

- The Authority was awarded a grant of approximately \$2,574,000 for the rehabilitation of the RJ Corman Bridge. This represents a significant increase in the operation of the Authority.
- The rehabilitation of the RJ Corman Bridge is expected to commence in the third quarter of 2011 and be completed in the year 2012.

### Requests for Information

This report is designed to provide an overview of the Montgomery County Rail Service Authority finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Erinne J. Hester, Director of Accounts and Budgets for Montgomery County Tennessee, P.O. Box 368, Clarksville, TN 37041, phone 931-648-5705 or email [ejhester@montgomerycountyttn.org](mailto:ejhester@montgomerycountyttn.org).

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY  
STATEMENT OF NET ASSETS/GOVERNMENTAL FUND BALANCE SHEET  
JUNE 30, 2010

ASSETS

Assets

Cash in Bank	\$ 25,521
Grant Receivable	<u>12,007</u>
Total Assets	<u><u>37,528</u></u>

LIABILITIES AND FUND BALANCE/NET ASSETS

Liabilities

Accounts Payable	12,845
Fund Balance/Net Assets	
Unrestricted	<u>24,683</u>
Total Liabilities and Fund Balance/Net Assets	<u><u>\$ 37,528</u></u>

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT.

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY  
STATEMENT OF ACTIVITIES/STATEMENT OF GOVERNMENTAL FUND  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2010

Expenditures/Expenses:

Engineering Inspection	\$	349,971
Legal & Audit Fees		<u>3,000</u>
Total Expenditures/Expenses		352,971

Program Revenues:

Operating Grants		<u>349,971</u>
Net Program Expense		<u>3,000</u>
Net Change in Fund Balance/Net Assets		(3,000)

Fund Balance/Net Assets-Beginning		<u>27,683</u>
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Fund Balance/Net Assets-Ending	\$	<u><u>24,683</u></u>
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SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT.

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Montgomery County Rail Service Authority (the Authority) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies for the Authority are described as follows:

A. The Financial Reporting Entity

The Authority is responsible for assisting in the continuation of rail service within the area of Montgomery County. One of the four board members of the Authority is appointed by the Montgomery County Mayor with the Montgomery County Commission's approval; one is appointed by the Mayor of Clarksville with the Clarksville City Council's approval; the County Mayor and the City Mayor are the remaining two members of the Board. The Authority is treated as a joint venture because of the ongoing financial interest maintained by Montgomery County. Management functions are handled by County personnel, and cash funds are co-mingled with County funds. Neither the County nor the City has any financial responsibility for, or in, the Authority. The financial reporting entity of the Authority only includes the assets and operations of the Authority and does not include any other fund, organization, institution, agency, department, or office of Montgomery County or the City of Clarksville.

B. Combination Government-Wide and Fund Financial Statements

Combination government-wide and fund financial statements are presented for the Authority. The governmental fund financial statements and the reconciliation with the government-wide statements have not been presented because the fund financial statements and the government-wide statements are essentially the same.

C. Measurement Focus/Basis of Accounting

The operations of the Authority are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures. Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements include a statement of net assets and a statement of activities. These statements present summaries of governmental activities for the Authority. The government-wide statements are presented on an economic resource measurement focus and the accrual basis of accounting. Accordingly, all the Authority's assets and liabilities, including capital assets and long-term liabilities, if any, are included in the accompanying statement of net assets.

Fund financial statements report detailed information about the Authority. The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus and modified accrual basis of accounting. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which report on sources and uses of current financial resources.

Revenues are recognized when they become both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Authority considers revenues to be available if they are collected within thirty days of the end of the fiscal year. Expenditures are generally recognized under modified accrual basis of accounting when the related liabilities are incurred.

The major source of revenue is grant revenue as discussed below:

Grant Revenue

Grant revenue is received annually from the Tennessee Department of Transportation to be used in maintaining and upgrading the railroad assets within the Authority's jurisdiction.

D. Use of 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.

E. Receivables

All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

F. Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

G. Other Significant Accounting Policies

Other significant accounting policies are described throughout the notes section of this audit report or are disclosed in the statement formats.

2. CASH DEPOSITS

Cash deposits are carried at cost and the carrying amount of deposits is separately displayed on the balance sheet. At June 30, 2010, the deposits of the Authority were held by the Montgomery County Trustee and were deposited into a bank that is a member of the State Collateral Pool.

3. CONTINGENCIES

In the event of discontinued rail service by the operating company (R.J. Corman Railroad Company), the Authority must return to the state a portion of the funds granted based on the state's pro-rata share of the amortized value of materials installed.

4. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts and errors and omissions. The Authority (through its primary government, Montgomery County), has elected to obtain various insurance policies to transfer risk to a commercial insurance company either directly or through the Tennessee County Services Pool. Insurance settlements have not been in excess of insurance coverage in any of the prior three fiscal years.

5. SIGNIFICANT SUBSEQUENT EVENTS

The Authority was awarded a grant of approximately \$2,574,000 for the rehabilitation of the RJ Corman Bridge. The rehabilitation of the RJ Corman Bridge is expected to commence in the third quarter of 2011 and be completed in the year 2012. There are no other significant subsequent events that would affect the audited financial statements.

6. CONCENTRATIONS

Financial instruments that potentially subject the Authority to concentrations of credit risk principally of cash and grant receivables. The Authority maintains cash with a bank that is a member of the State Collateral Pool and believes it is not exposed to any significant credit risk on its cash balances.

Grant receivables at June 30, 2010 from the Tennessee Department of Transportation are considered fully collectible by the Authority.

The authority receives almost all of its support and revenue from the Tennessee Department of Transportation. A major reduction of funds from the agency would have a material effect on the operations and on the financial position of the authority.

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY  
SCHEDULE OF STATE FINANCIAL ASSISTANCE AND EXPENDITURES  
FOR YEAR ENDED JUNE 30, 2010

Grant Number	Program Name	Grantor Agency/ Pass-Through Agency	Balance 6/30/2009 (Receivable)	Receipts	Amount Paid, Earned or Expenditures	Balance 6/30/2010 (Receivable)
Z-09-213043-00	Bridge Structural Repairs	TN Department of Transportation/ Multimodal Transportation Resources	\$ -	\$ 2,262	\$ 2,262	\$ -
Z-09-213060-00	Bridge Structural Repairs	TN Department of Transportation/ Multimodal Transportation Resources	-	2,301	2,301	-
Z-07033-874-00	Bridge Repairs	TN Department of Transportation/ Multimodal Transportation Resources	-	8,513	8,513	-
Z-00820-875-00	Bridge Structural Repairs	TN Department of Transportation/ Multimodal Transportation Resources	-	8,514	8,514	-
Z-09-213090-00	Bridge Rehabilitation	TN Department of Transportation/ Multimodal Transportation Resources	-	171,522	171,522	-
Z-09-213093-00	Rehabilitation of Milepost 178.55	TN Department of Transportation/ Multimodal Transportation Resources	-	144,852	144,852	-
Z-10-220815-0	Bridge Repair	TN Department of Transportation/ Multimodal Transportation Resources	-	-	7,119	7,119
Z-10-220833-0	Track Engineer	TN Department of Transportation/ Multimodal Transportation Resources	-	-	4,888	4,888
			<u>\$ -</u>	<u>\$ 337,964</u>	<u>\$ 349,971</u>	<u>\$ 12,007</u>

Note: This report was prepared using the accrual basis of accounting.

SEE AUDITOR'S REPORT.



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Montgomery County Courthouse  
Clarksville, TN 37040

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

We have audited the accompanying financial statements of the governmental activities of Montgomery County Rail Service Authority, as of and for the year ended June 30, 2010, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the requirements prescribed by the Comptroller of the Treasury, State of Tennessee, as detailed in the Audit Manual.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Montgomery County Rail Service 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 Montgomery County Rail Service Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Montgomery County Rail Service 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and responses as 10-01 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as 10-01 to be a significant deficiency.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montgomery County Rail Service 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*.

Montgomery County Rail Service Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Montgomery County Rail Service Authority's response and, accordingly, we express no opinion on it.

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

*Thurman Campbell Group, PLC*

December 30, 2010

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2010

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Montgomery County Rail Service Authority.
2. One significant deficiency related to the audit of financial statements is reported in the 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. However, we consider item 10-01 to be a material weakness.
3. No instances of noncompliance material to the financial statements of Montgomery County Rail Service Authority were disclosed during the audit.

B. FINDINGS – AUDIT OF FINANCIAL STATEMENTS

SIGNIFICANT DEFICIENCIES

10-01 FINANCIAL REPORTING

Condition: The Montgomery County Rail Service Authority has not implemented internal controls that allow timely oversight and review of financial reporting.

Criteria: Internal controls should be in place that requires appropriate management level review of the financial statements.

Cause: Management has not implemented the appropriate internal controls to review and manage financial reporting.

Effect: Because of the failure to review financial reporting in a timely manner, financial statements could be materially misstated.

Recommendation: Procedures should be implemented requiring Management to amend internal control procedures to include appropriate oversight of financial statements preparation.

Response: The recommended procedures will be implemented during this audit period to include a post closing review of the financial statements by the Montgomery County Director of Accounts and Budgets and the Financial Analyst.