

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY
FINANCIAL STATEMENTS
AND
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS
JUNE 30, 2012

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY
TABLE OF CONTENTS
JUNE 30, 2012

Table of Contents

	<u>Page</u>
<u>Introductory Section</u>	
General Information	1
<u>Financial Section</u>	
Independent Auditor's Report	2
Management's Discussion and Analysis	4
Government Wide Financial Statements	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements	
Governmental Fund Balance Sheet	12
Statement of Governmental Fund Revenues, Expenditures, and Changes In Fund Balance	13
Notes to Financial Statements	14
<u>Supplementary Information</u>	
Schedule of Expenditures of State Financial Assistance	18
<u>Internal Control and Compliance Section</u>	
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	19

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY
GENERAL INFORMATION
JUNE 30, 2012

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

Kim McMillan, City Mayor

Stan Williams, Director

Bryce Sanders, Director



THURMAN CAMPBELL GROUP, PLC
CERTIFIED PUBLIC ACCOUNTANTS

Members

American Institute of
Certified Public Accountants

Tennessee Society of
Certified Public Accountants

Kentucky Society of
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Montgomery County Rail Service Authority (the Authority) as of and for the year ended June 30, 2012, which collectively comprise the 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 and each major fund of Montgomery County Rail Service Authority, as of June 30, 2012, 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 October 26, 2012, 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 9 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 expenditures of state financial assistance 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 expenditures of state financial assistance is the responsibility of management and was 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

October 26, 2012

Management's Discussion and Analysis
Montgomery County Rail Service Authority
June 30, 2012

As management of the Montgomery County Rail Service Authority (the Authority), we offer readers of the Montgomery County Rail Service Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2012. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Montgomery County Rail Service 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 \$147,181 net assets.
- The government's total net assets increased by \$68,559, primarily due to increases 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 \$147,181 an increase of \$68,559 in comparison with the prior year. Approximately \$133,428 or 90 percent is restricted for use in the rehabilitation of the RJ Corman Bridge Project. The Authority has \$13,753 available for discretionary spending of the Board.
- At the end of the current fiscal year, unassigned fund balance for the Authority was \$13,753 or 18 percent of total expenditures for the fiscal year.

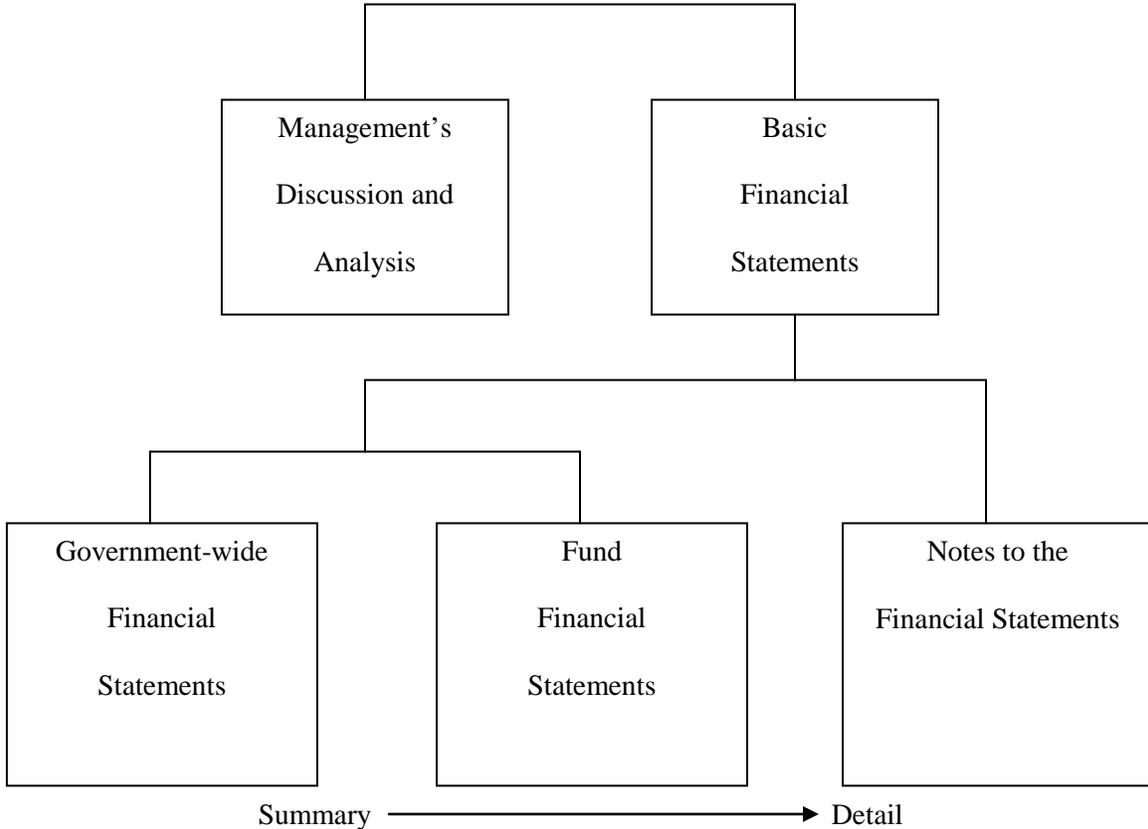
Overview of the Financial Statements

This discussion and analysis are 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. 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.

**Management's Discussion and Analysis
Montgomery County Rail Service Authority
June 30, 2012**

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Pages 10 and 11) in the basic financial statements are the Government-wide Financial Statements. They provide both short and long-term information about the Authority's financial status.

The next statements (Exhibits 12 through 13) are Fund Financial Statements. These statements focus on the activities of the individual parts of the Authority's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the notes. 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 about the Authority's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Management's Discussion and Analysis
Montgomery County Rail Service Authority
June 30, 2012

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 government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the Authority's basic services. State and federal grant funds finance most of these activities.

The government-wide financial statements are on Pages 10 and 11 of this report.

Fund Financial Statements

The fund financial statements (see Figure 2) 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 Authority's, 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 or the Authority's budget ordinance. The fund of the Authority is a governmental fund.

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 an accounting method called *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. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Authority adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Authority, the management of the Authority, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Authority to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Authority complied with the budget ordinance and whether or not the Authority succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget

Management's Discussion and Analysis
Montgomery County Rail Service Authority
June 30, 2012

as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

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 14-17 of this report.

Government-Wide Financial Analysis

The Montgomery County Rail Service Authority's Net Assets

Figure 2

	Governmental Activities	
	2012	2011
Current and other assets		
Capital assets	166,141	105,585
Total assets	166,141	105,585
Long-term liabilities outstanding		
Other liabilities	18,960	26,962
Total liabilities	18,960	26,962
Net assets:		
Invested in capital assets, net of related debt		
Restricted	133,428	59,120
Unrestricted	13,753	19,502
Total net assets	\$ 147,181	\$ 78,622

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 \$147,181 as of June 30, 2012. The Authority's net assets increased by \$68,559 for the fiscal year ended June 30, 2012. However, the largest portion 90% reflects the Authority's restricted assets for funds collected for grant match related to TDOT grants awarded to the Authority. The Authority uses these restricted assets to provide required local match on TDOT grants, consequently, these assets are not available for future spending. The remaining balance of \$13,753 is unrestricted.

Management's Discussion and Analysis
Montgomery County Rail Service Authority
June 30, 2012

Several particular aspects of the Authority's financial operations positively 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.

Montgomery County Rail Service Authority
Changes in Net Assets

Figure 3

	Governmental Activities 2012	Governmental Activities 2011
Revenues:		
Program revenues:		
Operating grants and contributions	143,339	162,176
Total revenues	143,339	162,176
Expenses:		
Engineering Inspections	69,030	16,192
Legal and Audit Fees	5,750	8,356
Other Construction	-	83,688
Total expenses	74,780	108,236
Increase in net assets	68,559	53,940
Net assets, July 1	78,622	24,682
Net assets, June 30	\$ 147,181	\$ 78,622

Governmental activities. Governmental activities increased the Authority's net assets by \$68,559, thereby accounting for 100% of the total growth in the net assets of the Authority. Key elements of this increase are as follows:

- The Authority's grants revenues and expenses will not equal.
- The only expenses not covered by the grants are yearly audit expenses and local match for the rehabilitation grant.

Management's Discussion and Analysis
Montgomery County Rail Service Authority
June 30, 2012

Financial Analysis of the Authority's 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, unassigned fund balance of the General Fund was \$13,753, while total fund balance reached \$147,181. As a measure of the Authority's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 18 percent of total Authority Fund expenditures.

At June 30, 2012, the governmental funds of Authority reported a combined fund balance of \$147,181, a 46 percent increase over last year.

Economic Factors and Next Year's Budgets and Rates

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

- The RJ Corman Bridge Rehabilitation Grant was amended in FY 2013 with an approximate construction phase of the project totaling \$3,472,051. This represents a significant increase in the operation of the Authority.
- The new amendment does not change the estimated completion date requirement of on or before August 31, 2015.
- For FY2011-2012 the Tennessee Department of Transportation allocated from the Transportation Equity Trust Fund for track and bridge rehab for Montgomery County in the amount of 18,144, with additional money of \$36,800 in FRA bridge inspection.

Requests for Information

This report is designed to provide an overview of the Authority's 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.

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2012

ASSETS

Assets

Cash in Bank	\$ 151,621
Grant Receivable	<u>14,520</u>
Total Assets	<u>166,141</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts Payable	<u>18,960</u>
------------------	---------------

Net Assets

Restricted	133,428
Unrestricted	<u>13,753</u>
Total Net Assets	<u>147,181</u>

Total Liabilities and Net Assets	<u>\$ 166,141</u>
----------------------------------	-------------------

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT.

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	Governmental Activities
Expenses:	
Engineering Inspection	\$ 69,030
Legal & Audit Fees	<u>5,750</u>
Total Expenses	74,780
Program Revenues:	
Operating Grants & Support	143,339
Net Program Revenues	<u>68,559</u>
Change in Net Assets	68,559
Net Assets-Beginning	<u>78,622</u>
Net Assets-Ending	<u><u>\$ 147,181</u></u>

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT.

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY
GOVERNMENTAL FUND BALANCE SHEET
JUNE 30, 2012

ASSETS

Assets

Cash in Bank	\$ 151,621
Grant Receivable	<u>14,520</u>
Total Assets	<u><u>166,141</u></u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts Payable	<u>18,960</u>
------------------	---------------

Fund Balance

Restricted	133,428
Unassigned	<u>13,753</u>
Total Fund Balance	<u>147,181</u>

Total Liabilities and Fund Balance	<u><u>\$ 166,141</u></u>
------------------------------------	--------------------------

**Reconciliation of the Balance Sheet
of Governmental Funds to the Statement of Net Assets:**

Total Governmental Fund Balances	\$ 147,181
Reconciling Items	<u>-</u>
Net Assets of the Governmental Activities	<u><u>\$ 147,181</u></u>

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT.

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY
STATEMENT OF GOVERNMENTAL FUND
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2012

Revenues:

TDOT Grant	\$ 35,791
TEMA Grant	1,808
Montgomery County and Clarksville Support	<u>105,740</u>
Total Revenues	<u>143,339</u>

Expenditures:

Engineering Inspection	69,030
Legal & Audit Fees	<u>5,750</u>
Total Expenditures	<u>74,780</u>

Excess (Deficiency) of Revenues Over Expenditures	68,559
Fund Balance-Beginning	<u>78,622</u>
Fund Balance-Ending	<u><u>\$ 147,181</u></u>

**Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances to the Statement of Activities:**

Net Change in Fund Balances - Total Governmental Funds	\$ 68,559
Reconciling Items	-
Change in Net Assets of the Governmental Activities	<u><u>\$ 68,559</u></u>

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT.

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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 Tennessee. 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 Tennessee 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. Government-Wide and Fund Financial Statements

Both Government-Wide and Fund Financial Statements are presented for the Authority. It should be noted that the fund financial statements and the government-wide statements are essentially the same, because the Authority does not own any capital assets and has no long term liabilities.

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.

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY
NOTES TO FINANCIAL STATEMENTS CONTINUED

C. Measurement Focus/Basis of Accounting - Continued:

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.

D. 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.

E. 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.

F. Receivables

All receivables are reported at their gross value, and where appropriate, are reduced by an allowance for doubtful accounts.

G. Fund Balance Classification: The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Authority is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

I. Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

II. Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

III. Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. The Board of Directors is the highest level of decision-making authority for the Authority. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY
NOTES TO FINANCIAL STATEMENTS CONTINUED

G. Fund Balance Classification – Continued:

- IV. Assigned: This classification includes amounts that are constrained by the Authority’s intent to be used for a specific purpose, but are neither restricted nor committed. This intent can be expressed by the Board of Directors or through the Board of Directors delegating this responsibility to the County’s accounting department through the budgetary process.
- V. Unassigned: This classification includes the residual fund balance for the Authority and represents funds that have not been classified as nonspendable, restricted, committed or assigned.

The details of the fund balances are included in Note 7. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Authority considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Authority considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Authority’s Board of Directors has provided otherwise in its commitment or assignment actions.

H. 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

Statement No. 40, “Deposit and Investment Risk Disclosures”, of the Governmental Accounting Standards Board, states “If a government has no deposit or investment policy that addresses a specific type of risk that it is exposed to, the disclosure should indicate that fact.” The Authority does not have an official deposit and investment policy. Although, there is no official deposit and investment policy for the Authority in order to provide a safe temporary medium for investment of the Authority’s idle funds, the Authority invests those idle funds under the provisions of Tennessee Code Annotated 6-56-106. State statutes authorize the Authority to invest in: (1) U.S. government securities and obligations guaranteed by the U.S. government, (2) deposit accounts at state and federally chartered banks and savings and loan associations, and (3) the Local Government Investment Pool of the State of Tennessee.

GASB 40 is designed to inform financial statement users about the deposit and investment risks that could affect a government’s ability to provide services and meet its obligations as they become due. The Authority recognizes its deposits are subject to custodial credit risk. Custodial credit risk is defined as the risk that a government will not be able to recover its deposits, investments or collateral from the bank in the event of bank failure. As of June 30, 2012, the Authority maintains its cash balances with the Montgomery County Trustee, who deposits the Authority’s cash balances with a financial institution that participates in the State of Tennessee Collateral Pool.

4. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, 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.

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONT'D)

5. SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through October 26, 2012 the date which the financial statements were available to be issued.

6. CONCENTRATIONS

Financial instruments that potentially subject the Authority to concentrations of credit risk are the Authority's grant receivables. Grant receivables at June 30, 2012 totaled \$14,520.

7. FUND BALANCE

Beginning in fiscal year 2011, the Authority implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on government's fund balances more transparent.

The Authority as of fiscal year end June 30, 2012 has classified its fund balance as \$118,908 restricted due to restrictions placed on the use of the funds from the contributor (Montgomery County and the City of Clarksville) for the purpose of providing matching grant funds for the rehabilitation of the historic R J Corman Railroad Bridge and \$13,753 as unassigned.

8. ECONOMIC DEPENDENCY

The authority receives the majority of its support and revenue from the Tennessee Department of Transportation (TDOT), Montgomery County and the City of Clarksville. A major reduction of funds from either source would have a material effect on the operations and on the financial position of the Authority.

9. LEGAL REQUIREMENT FOR A BUDGET

Tennessee Code Annotated does not require the passing of an annual budget by the Authority thus eliminating the need for a budget comparison schedule.

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass Through Grantor	CFDA Number	Contract Number	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
<u>State Financial Assistance</u>						
TN Department of Transportation/ Multimodal Transportation Resources	N/A	Z-09-213060-00	\$ (1,697)	\$ 2,356	\$ 659	-
TN Department of Transportation/ Multimodal Transportation Resources	N/A	Z-10-220815-00	(124)	11,764	11,640	-
TN Department of Transportation/ Multimodal Transportation Resources	N/A	Z-10-22833-0	(13)	3,188	3,175	-
TN Department of Transportation/ Multimodal Transportation Resources	N/A	GG-10-30907-00	(6,833)	8,465	1,632	-
TN Department of Transportation/ Multimodal Transportation Resources	N/A	GG-11-33723-00	-	2,281	2,281	-
TN Department of Transportation/ Multimodal Transportation Resources	N/A	Z-11-RE2015-00	(7,405)	9,289	1,884	-
TN Department of Transportation/ Multimodal Transportation Resources	N/A	Z-12-RE1048-00	-	-	14,520	(14,520)
Federal Emergency Management Agency/ Department of Military, TEMA	N/A	FEMA-1909-DR-TN	-	1,808	1,808	-
			<u>\$ (16,072)</u>	<u>\$ 39,151</u>	<u>\$ 37,599</u>	<u>\$ (14,520)</u>

Basis of presentation:

Note 1: The accompanying Schedule of Expenditures of State Financial Assistance summarizes the expenditures of Montgomery County Rail Service Authority under programs of the state governments for the year ended June 30, 2012. The schedule is presented using the modified accrual basis of accounting.

SEE AUDITOR'S REPORT.



THURMAN CAMPBELL GROUP, PLC
CERTIFIED PUBLIC ACCOUNTANTS

Members

American Institute of
Certified Public Accountants

Tennessee Society of
Certified Public Accountants

Kentucky Society of
Certified Public Accountants

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*

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

We have audited the financial statements of the governmental activities and each major fund of Montgomery County Rail Service Authority as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated October 26, 2012. 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, and the requirements prescribed by the Comptroller of the Treasury, State of Tennessee, as detailed in the Audit Manual.

Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining effective 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 opinions 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.

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.

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 following deficiency in the Authority's internal control to be significant deficiency:

During the audit, we observed five invoices for engineering services totaling \$20,887 in which it appears the purchase order was issued after the invoice was received or there was no purchase order associated with the invoice. Best practices related to internal controls over purchasing prescribe issuing the purchase order prior to the purchase of goods or services to ensure compliance with state purchasing regulations, to ensure compliance with the budget, and to mitigate improper payments or overpayments to vendors.

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*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and 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

October 26, 2012