

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY
FINANCIAL STATEMENTS
AND
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS
FOR THE YEAR ENDED JUNE 30, 2014

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY
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 JUNE 30, 2014

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MONTGOMERY COUNTY RAIL SERVICE AUTHORITY
GENERAL INFORMATION
JUNE 30, 2014

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

Jim Durrett, County Mayor, Chairman

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
Clarksville, TN 37040

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Montgomery County Rail Service Authority (the Authority) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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 of the Authority as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1(H) to the financial statements, in 2014, the Authority adopted new accounting guidance, *GASB Statement No. 65, Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5–9 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal and state awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal and state awards is fairly stated in all material respects in relation to the basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2015, on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Thurman Campbell Group, PLC

Clarksville, TN
February 23, 2015

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2014

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, 2014. 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

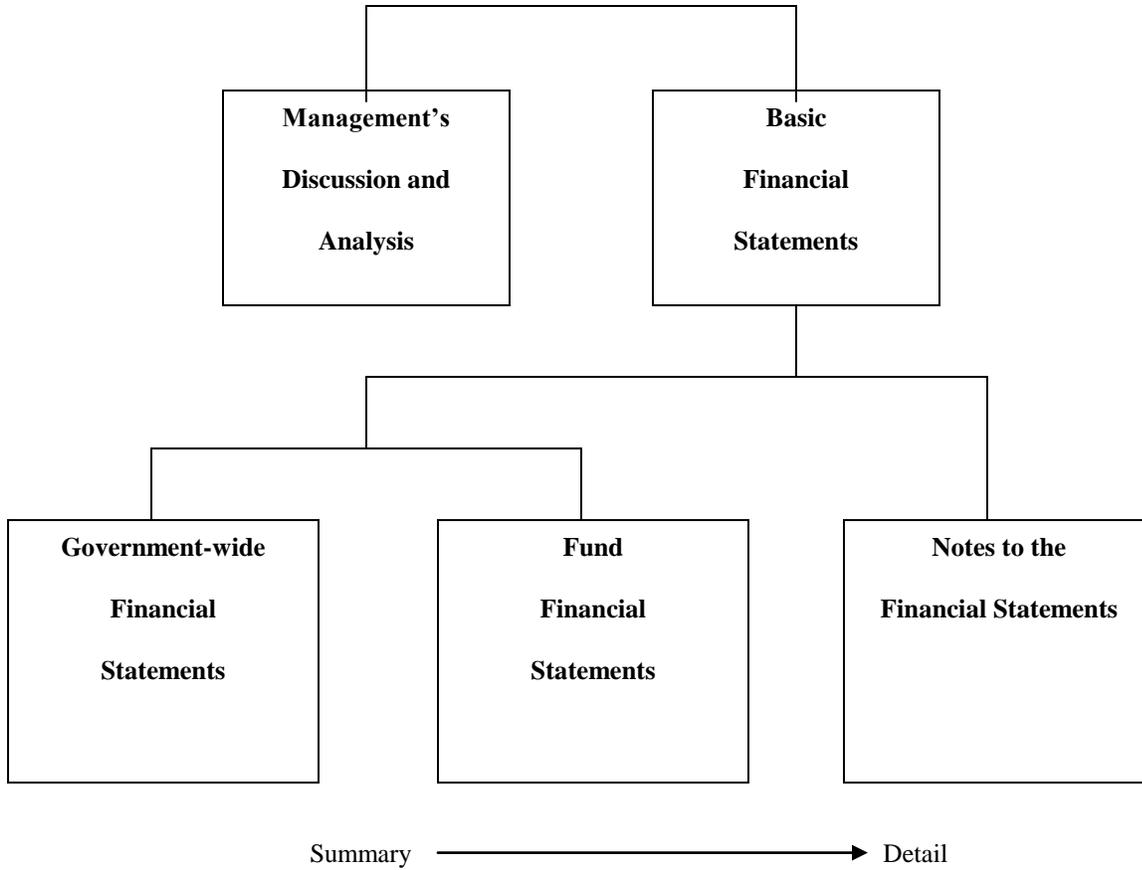
- The assets of the Montgomery County Rail Service Authority exceeded its liabilities at the close of the fiscal year by \$5,526 net position.
- The government's total net position decreased by \$6,316, primarily due to increases in the governmental type activities.
- As of the close of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of negative \$1,489,917, a decrease of \$1,445,109 in comparison with the prior 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.

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 (Pages 12 and 13) are the 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.

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 expenditures of federal and state awards.

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 position and how they have changed. Net position is the difference between the Authority's total assets and deferred outflows of resources, and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the Authority's financial condition.

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. 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 governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are described in a reconciliation that is a part of the fund financial statements. This reconciliation is located on pages 12 and 13.

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 14-18 of this report.

Government-Wide Financial Analysis

The Montgomery County Rail Service Authority’s Net Position

Figure 2

	Governmental Activities	
	2014	2013
Current and other assets	\$ 1,610,128	\$ 156,294
Total assets	<u>1,610,128</u>	<u>156,294</u>
Current liabilities	1,604,602	-
Total liabilities	<u>1,604,602</u>	<u>-</u>
Net Position:		
Restricted	60,332	148,541
Unrestricted	<u>(54,806)</u>	<u>7,753</u>
Total net position	<u>\$ 5,526</u>	<u>\$ 156,294</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Authority exceeded liabilities by \$5,526 as of June 30, 2014. The Authority's net position decreased by \$6,316 for the fiscal year ended June 30, 2014. The Authority's restricted assets represents 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.

Several particular aspects of the Authority's financial operations positively influenced the total governmental net position:

- 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 Position**

Figure 3

	Governmental Activities	
	2014	2013
Revenues:		
Program revenues:		
Operating grants and contributions	\$ 12,370	\$ 138,193
Capital grants and contributions	1,858,669	-
General revenues:		
Interest income	1,082	-
Total revenues	1,872,121	138,193
Expenses:		
Engineering inspections	12,370	123,080
Liability and professional fees	7,395	6,000
Repairs and construction costs	1,858,672	-
Total expenses	1,878,437	129,080
Change in net position	(6,316)	9,113
Net position, July 1	156,294	147,181
Prior period adjustment (See note 11)	(144,452)	-
Net position, June 30	\$ 5,526	\$ 156,294

Governmental activities: Governmental activities decreased the Authority's net position by \$6,316, thereby accounting for a drop in the net position of the Authority. Key elements of this decrease 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, liability and local match for the rehabilitation grant.

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, unassigned 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 June 30, 2014, the governmental funds of Authority reported a combined fund balance of negative \$1,489,917.

Economic Factors and Next Year's Budgets and Rates

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

- The construction phase of the RJ Corman Bridge Rehabilitation is nearing completion in FY15. The project has an estimated completion date requirement of on or before August 31, 2015.
- Tennessee Department of Transportation terminated track and bridge engineering grant funded projects awarded from the Transportation Equity Trust Fund to Montgomery County Rail Service Authority effective in FY14. The cut in grant funding is due to ongoing legal issues faced on a statewide level. This has no impact on the RJ Corman Bridge Rehabilitation due to the funding source passed through FHWA.

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 Jeffrey Taylor, Director of Accounts and Budgets for Montgomery County Tennessee, P.O. Box 368, Clarksville, TN 37041, phone 931-648-5705 or email jgtaylor@montgomerycountyttn.org.

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2014

<u>Assets</u>	<u>ASSETS</u>	<u>Governmental Activities</u>
Cash in Bank		\$ 61,772
Grant Receivable-TDOT		1,459,293
Due from the City of Clarksville		<u>89,063</u>
Total Assets		<u>\$ 1,610,128</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</u>		
<u>Liabilities</u>		
Accounts Payable		\$ 1,390,095
Unearned Revenues		<u>214,507</u>
Total Liabilities		<u>1,604,602</u>
<u>Deferred Inflows of Resources</u>		<u>-</u>
<u>Net Position</u>		
Restricted		60,332
Unrestricted		<u>(54,806)</u>
Total Net Position		<u>5,526</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position		<u>\$ 1,610,128</u>

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Governmental Activities</u>
<u>Expenses:</u>	
Engineering Inspection	\$ 12,370
Professional Fees	5,510
Liability Insurance	1,885
Repairs & Construction	<u>1,858,672</u>
Total Expenses	<u>1,878,437</u>
 <u>Program Revenues:</u>	
Operating Grants & Contributions	12,370
Capital Grants & Contributions	<u>1,858,669</u>
Total Program Revenues	<u>1,871,039</u>
Net Revenues (Expenses)	(7,398)
 <u>General Revenues:</u>	
Interest Income	<u>1,082</u>
Change in Net Position	<u>(6,316)</u>
Net Position-Beginning, As Previously Stated	156,294
Prior Year Adjustment (See Note 11)	<u>(144,452)</u>
Net Position-Beginning, Restated	<u>11,842</u>
Net Position-Ending	<u><u>\$ 5,526</u></u>

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY
BALANCE SHEET-GOVERNMENTAL FUND
JUNE 30, 2014

ASSETS

Assets

Cash in Bank	\$ 61,772
Grant Receivable-TDOT	1,459,293
Due from the City of Clarksville	<u>89,063</u>
Total Assets	<u>\$ 1,610,128</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE

Liabilities

Accounts Payable	\$ 1,390,095
Unearned Revenues	<u>214,507</u>
Total Liabilities	<u>1,604,602</u>

Deferred Inflows of Resources

Unavailable Grants-TDOT	1,425,010
Unavailable Contributions-City of Clarksville	<u>70,433</u>
Total Deferred Inflows of Resources	<u>1,495,443</u>

Fund Balance

Restricted	60,332
Unassigned	<u>(1,550,249)</u>
Total Fund Balance	<u>(1,489,917)</u>

Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 1,610,128</u>
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**Reconciliation of the Balance Sheet
of Governmental Funds to the Statement of Net Position:**

Total Governmental Fund Balances	\$(1,489,917)
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Amounts Reported for Governmental Activities in the
Statement of Activities are Different Because:

Other revenues are not available to pay for current
period expenditures and therefore are reported as
deferred inflows of resources in the funds

Grant Revenues-TDOT	1,425,010
City of Clarksville Contributions	<u>70,433</u>

Net Position of the Governmental Activities	<u>\$ 5,526</u>
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SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES-GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

Revenues:

TDOT Grant	\$ 12,370
Railroad Rehabilitation-TDOT Grant	61,925
RJ Corman Contributions	230,267
Montgomery County and Clarksville Contributions	127,684
Interest Income	<u>1,082</u>
Total Revenues	<u>433,328</u>

Expenditures:

Engineering Inspection	12,370
Liability Insurance	1,885
Professional Fees	5,510
Repairs & Construction	<u>1,858,672</u>
Total Expenditures	<u>1,878,437</u>

Excess (Deficiency) of Revenues Over Expenditures (1,445,109)

Fund Balance-Beginning, As Previously Stated 156,294

Prior Year Adjustments (See Note 11) (201,102)

Fund Balance-Beginning, Restated (44,808)

Fund Balance-Ending \$ (1,489,917)

**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 \$ (1,445,109)

Amounts Reported for Governmental Activities in the
Statement of Activities are Different Because:

Revenues in the statement of activities that do not provide current
financial resources are not reported as revenues in the governmental funds 1,438,793

Change in Net Position of the Governmental Activities \$ (6,316)

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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 most 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 Financial Statements

The government-wide financial statements include a statement of net position and a statement of activities. These statements present summaries of governmental activities for the Authority.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Authority's activities. Direct expenses are those that are specifically associated with a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that have been obtained to meet the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each function of the Authority is self-financed or draws from general revenues.

C. Fund Financial Statements, Measurement Focus and Basis of Accounting

The operations of the Authority are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, net position, 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 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 position.

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

C. Measurement Focus and Basis of Accounting (Cont'd)

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 reports 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. 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.

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

Receivables are presented net of any allowance for uncollectible accounts. Bad debts are charged to expenses using the allowance method. There was no bad debt expense for the year then ended. All receivables as of June 30, 2014 are considered fully collectible.

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. The Authority did not have any nonspendable resources as of June 30, 2014.

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. The Authority has resources restricted due to restrictions placed on the use of the funds by the grantor and contributors (Montgomery County, the City of Clarksville and RJ Corman Railroad Company) for the purpose of providing matching grant funds for the rehabilitation of the historic RJ Corman Railroad Bridge.

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

G. Fund Balance Classification (Cont'd)

- 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. The Authority did not have any committed resources as of June 30, 2014.
- 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. The Authority did not have any assigned resources as of June 30, 2014.
- 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.

When 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 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. The Authority has not adopted a minimum fund balance policy.

H. New Pronouncements

Effective for the fiscal year ending June 30, 2014, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB), Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses and expenditures) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities. The effects of this statement were applied retroactively by reporting the cumulative effect of the application as a restatement of beginning fund balance/net position.

I. 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

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013

2. CASH DEPOSITS (CONT'D)

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, 2014, 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.

3. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, errors and omissions. The Authority has elected to obtain various insurance policies to transfer risk to a commercial insurance company. Insurance settlements have not been in excess of insurance coverage in any of the prior three fiscal years.

4. COMMITMENTS

The Authority had uncompleted construction contracts of approximately \$1.5 million for rehabilitation of the historic R J Corman Railroad Bridge as of June 30, 2014. These contracts will be paid in future periods as work is performed. Payments will be made with grant proceeds and local matching contributions from the Montgomery County, the City of Clarksville and R J Corman Railroad Group.

5. GRANTS AND CONTRIBUTIONS

The Authority has been awarded a grant of \$2,777,641 by the Tennessee Department of Transportation (TDOT) for rehabilitation of the historic R J Corman Railroad Bridge. Local matching grant contributions have also been secured through Montgomery County, the City of Clarksville and R J Corman Railroad Group in the amount of \$247,803, \$247,803 and \$336,605, respectively.

6. CONCENTRATIONS

Financial instruments that potentially subject the Authority to significant concentrations of credit risk consist primarily of cash deposits and receivables. The Authority, through County Trustee, maintains cash deposits with federally insured financial institutions and with members of Tennessee Bank Collateral Pool and believes it is not exposed to any significant credit risk on its balances. Due from the grantor (Tennessee Department of Transportation) and the City of Clarksville is considered fully collectible as of June 30, 2014.

7. RESTRICTED ASSETS

Restricted assets represents cash restricted due to restrictions placed on the use of the funds from the grantor and contributors (Montgomery County, the City of Clarksville and R J Corman Railroad Company) for the purpose of providing matching grant funds for the rehabilitation of the historic R J Corman Railroad Bridge. Assets restricted for this purpose were \$60,332 at June 30, 2014.

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONT'D)
JUNE 30, 2013

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. RELATED PARTY TRANSACTIONS

The Authority is treated as a joint venture between the Montgomery County, Tennessee and the City of Clarksville, Tennessee. The Authority was established for the purpose of providing a continuation of rail service within the area of Montgomery County. Montgomery County and the City of Clarksville contributed \$0 and \$17,843, respectively, to the Authority for the capital activities during the year ended June 30, 2014.

10. 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.

11. PRIOR PERIOD ADJUSTMENTS

Prior period adjustments recorded as of June 30, 2014 were as follows:

	Fund Financials Fund Balance	Government- wide Financials Net Position
Beginning Fund Balance/Net Position, As Previously Stated	\$ 156,294	\$ 156,294
Adjustments:		
Unrecorded receivable and revenue from RJ Corman Company	-	44,400
Unrecorded receivable and revenue from City of Clarksville	-	12,250
Unearned revenues on advances from Montgomery County	(201,102)	(201,102)
Total Adjustments	(201,102)	(144,452)
Beginning Fund Balance/Net Position, As Restated	\$ (44,808)	\$ 11,842

12. CHANGE IN PRESENTATION

Certain items from prior year have been reclassified to conform to current year presentation.

13. DEFERRED INFLOWS OF RESOURCES

Effective for the fiscal year ending June 30, 2014, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB), Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses or expenditures) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities.

In addition to liabilities, the statement of net position/balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as revenue until that time. The Authority has only one type of item, which arises under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenues, is reported only in the governmental fund balance sheet as deferred inflows of resources.

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY
 SUPPLEMENTARY INFORMATION-
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/ Pass Through Grantor	CFDA Number	Contract Number	Beginning (Receivable)	Cash Receipts	Expenditures	Ending (Receivable)
<u>Federal Awards</u>						
US Department of Transportation/ TN Department of Transportation	20.205	Fed Prjt #STP-EN-9301(24)/ St Prjt # 63LPM-F3-040	\$ -	\$ 27,643	\$ 1,486,936	\$ 1,459,293
		Total Federal Awards	-	27,643	1,486,936	1,459,293
<u>State Financial Assistance</u>						
TN Department of Transportation/ Multimodal Transportation Resources	N/A	Z-11-RE2033-00	-	5,080	5,080	-
TN Department of Transportation/ Multimodal Transportation Resources	N/A	Z-12-RE2002-00	-	7,290	7,290	-
		Total State Awards	-	12,370	12,370	-
		Total Awards	\$ -	\$ 40,013	\$ 1,499,306	\$ 1,459,293

Basis of presentation:

The Schedule of Expenditures of Federal and State Awards is presented using the accrual basis of accounting.

SEE AUDITOR'S REPORT



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INDEPENDENT AUDITOR'S 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
Clarksville, TN 37040

We have audited, in accordance with the 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, the financial statements of the governmental activities and the major fund of the Montgomery County Rail Service Authority (the Authority) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 23, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be a material weakness.

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 2014-001 described in the accompanying schedule of findings and questioned costs to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

The Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Thurman Campbell Group, PLC

Clarksville, TN
February 23, 2015



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited Montgomery County Rail Service Authority's (the Authority) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2014. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of the Authority, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and

material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Thurman Campbell Group, PLC

Clarksville, TN
February 23, 2015

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2014

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Montgomery County Rail Service Authority.
2. One material weakness disclosed during the audit of the financial statements was reported in the Independent Auditor's 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.
3. No instances of noncompliance material to the financial statements of Montgomery County Rail Service Authority, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs disclosed during the audit are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133.
5. The auditor's report on compliance for major federal award programs for the Authority expresses an unqualified opinion on all major programs.
6. The audit disclosed no audit findings which are required to be reported under section 510 (a) of OMB Circular A-133.
7. The program tested as a major program was U.S. Department of Transportation-Highway Planning and Construction, CFDA 20.205.
8. The dollar threshold used for distinguishing between Type A and Type B programs was \$300,000.
9. Montgomery County Rail Service Authority did not qualify as a low-risk auditee.

B. FINDINGS-FINANCIAL STATEMENT AUDIT

2014-001 MANAGEMENT OVERSIGHT OF FINANCIAL REPORTING

Condition: Management did not record entries to properly reflect receivables, grants and contribution revenues, payables and unearned revenues. Several adjusting entries were required for the Authority's financial statements to be presented in conformity with generally accepted accounting principles (GAAP).

Effect of condition: Inaccuracies in financial reporting could result in materially misstated financial statements.

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

Criteria: The financial statements to be prepared in conformity with accounting principles generally accepted in the United States of America.

Recommendation: We recommend management implement procedures to ensure that the financial statements are prepared in conformity with GAAP.

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)
JUNE 30, 2014

B. FINDINGS-FINANCIAL STATEMENT AUDIT (CONT'D)

2014-001 MANAGEMENT OVERSIGHT OF FINANCIAL REPORTING (CONT'D)

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.

C. FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

D. PRIOR YEAR FINDINGS-MAJOR FEDERAL AWARD PROGRAMS AUDIT

None