

REGIONAL TRANSPORTATION AUTHORITY

**AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2018

REGIONAL TRANSPORTATION AUTHORITY

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REGIONAL TRANSPORTATION AUTHORITY

INTRODUCTION

The Regional Transportation Authority (“RTA”) is pleased to present its Annual Financial Report for the year ended June 30, 2018.

Responsibility and Controls

RTA has prepared and is responsible for the financial statements and related information included in this report. A system of internal accounting controls is maintained to provide reasonable assurance that assets are safeguarded and that the books and records reflect only authorized transactions. Limitations exist in any system of internal controls. However, based on recognition that the cost of the system should not exceed its benefits, management believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

RTA’s system of internal accounting controls is evaluated on an ongoing basis by RTA’s internal financial staff. Crosslin, PLLC, our external auditors, also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

Management believes that its policies and procedures provide guidance and reasonable assurance that RTA’s operations are conducted according to management’s intentions and to a high standard of business ethics. In management’s opinion, the financial statements present fairly, in all material respects, the financial position of RTA as of June 30, 2018, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Audit Assurance

The unmodified opinion of our independent external auditors, Crosslin, PLLC, is included in this report.

**REGIONAL TRANSPORTATION AUTHORITY
AS OF JUNE 30, 2018**

BOARD MEMBERS

Rogers Anderson, Williamson County
Michael Arnold, City of White House
Bernie Ash, City of Lebanon
David Briley, Metro Nashville/Davidson County
Howard Bradley, Robertson County
Paige Brown, City of Gallatin
Jill Burgin, City of Brentwood
Jamie Clary, City of Hendersonville
Ed Cole, Governor's Appointee
Jeff Duncan, City of Goodlettsville
Kelly Dannenfels, Governor's Appointee
Ken Davis, Governor's Appointee
Dean Dicky, City of Columbia
Jim Durett, Montgomery County
Margot Fosnes, Governor's Appointee
Rick Graham, City of Spring Hill
Ed Hagerty, City of Mt. Juliet
Anthony Holt, Sumner County
James Hunt, City of Belle Meade
Randall Hutto, Wilson County
Darrell James, Governor's Appointee
Rick Johnson, Ashland City
Ernest Burgess, Rutherford County
Jerry Kirkman, City of Westmoreland
Kerry McCarver, Cheatham County
Shane McFarland, City of Murfreesboro
Kim McMillan, City of Clarksville
Ken Moore, City of Franklin
Mary Esther Reed, City of Smyrna
Bob Rial, Dickson County
Ann Schneider, City of Springfield
John Schroer, Tennessee Department of Transportation
Jerome Terrell, Governor's Appointee
Dennis Waldron, City of La Vergne
Don Weiss, Jr., City of Dickson
Ken Wilber, City of Portland
Lee Zoller, Governor's Appointee



Independent Auditor's Report

Board of Directors
Regional Transportation Authority
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of the Regional Transportation Authority (the "Authority") as of and for the year ended June 30, 2018, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 general fund of the Regional Transportation Authority as of June 30, 2018, and the respective changes in financial position, and the budgetary comparison information for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 6 through 12 be presented to supplement the basic financial statements. Such information, although not 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 accompanying schedule of expenditures of federal awards and schedule of state financial assistance are presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), and the State of Tennessee, and are also not a required part of the basic financial statements.



The schedule of expenditures of federal awards and the schedule of state financial assistance are the responsibility of management and were 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 awards and the schedule of state financial assistance are 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 December 28, 2018, 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 solely 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 effectiveness of the Authority's 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.

Crosslin, PLLC

Nashville, Tennessee
December 28, 2018

**REGIONAL TRANSPORTATION AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS (Unaudited)**

This section of the Regional Transportation Authority’s (“RTA”) annual financial report presents our discussion and analysis of financial performance during the fiscal year ended June 30, 2018, as compared to fiscal year 2017. Please read it in conjunction with the introductory section of this report and RTA’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Fiscal Year 2018:

- RTA saw an overall decrease in fares collected for regional bus and commuter rail services of approximately \$24,000, or 1.3%, compared to last fiscal year. This consisted of a decrease in regional bus revenues of approximately \$87,000 being slightly offset by an increase in commuter rail revenues of approximately \$63,000.
- RTA saw an increase in operating expenses of approximately \$519,000, or 4.9%, during fiscal year 2018 compared to the prior fiscal year.
- RTA continued work on several capital projects during the fiscal year that included construction for a transit-oriented development to build a new train station and parking lot at Hamilton Springs in Lebanon, Tennessee. The new station and parking lot were opened in September 2018.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of five parts: management’s discussion and analysis (this section), the government-wide financial statement presentation, the governmental fund financial statement presentation, the notes to the financial statements and additional information.

The financial statements provide both long-term and short-term information about RTA’s overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other information that further explains and supports the information in the financial statements. The section of additional information includes schedules of federal and state awards and the notes thereto as well as a schedule of findings and questioned costs and the responses thereto, if applicable.

RTA’s financial statements are prepared in conformity with U.S. generally accepted accounting principles as applicable to state and local governments. Generally Accepted Accounting Principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (“GASB”). The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**REGIONAL TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

GOVERNMENT-WIDE FINANCIAL ANALYSIS OF RTA

Net Position

Fiscal year 2018 as compared to fiscal year 2017:

RTA's net position at June 30, 2018 totaled approximately \$23.7 million, a 20.8% increase compared to June 30, 2017 (See Table A-1). Total assets increased 22.8% to approximately \$28.0 million and total liabilities increased approximately 34.8% to approximately \$4.3 million compared to the prior year.

Table A-1
Regional Transportation Authority's Net Position
(in thousands of dollars)

	2018	2017	Percentage Change 2018-2017
Cash	\$ 2,397	\$ 1,994	20.2%
Due from other governments	3,069	2,008	52.8%
Prepaid items and inventory	447	493	(9.3%)
Restricted cash	1,843	1,699	8.5%
Capital assets, net	20,270	16,633	21.9%
Total assets	28,026	22,827	22.8%
Current liabilities	3,048	1,212	151.5%
Advanced contributions	829	1,241	(33.2%)
Note payable - line of credit	400	720	(44.4%)
Total liabilities	4,277	3,173	34.8%
Net position:			
Investment in capital assets	20,270	16,633	21.9%
Restricted	1,843	1,699	8.5%
Unrestricted	1,636	1,322	23.8%
Total net position	\$ 23,749	\$ 19,654	20.8%

The 22.8% increase in total assets was primarily due to increases in cash, due from other governments, restricted cash, and net capital assets, which were partially offset by decreases in prepaid expenses and inventory. Please read the capital asset section of this management discussion and analysis for further explanation for the increase in capital assets.

**REGIONAL TRANSPORTATION AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS - Continued**

Cash represents regular cash on hand for operations as well as cash set aside for specific purposes as determined by the RTA Board. Also included in cash are three separate reserves for vanpool van replacement, reserves for regional bus services, and a reserve for the construction of the Hamilton Springs train station and parking lot. The balances of the reserves are as follows:

Cash for Vanpool Replacement	\$344,533
Cash for Regional Bus Service	\$821,700
Cash for Hamilton Springs	\$341,312

The fluctuations in cash for operations, inventory, and grant receivables resulting from receipt of grant funding due from federal, state, and local governments was attributable to the normal course of business. The reserve for Hamilton Springs represents funding provided from the City of Lebanon to be used specifically for the construction of the train station and parking lot. The restricted cash, which increased 8.5%, consists of a \$1 million reserve required for a supplemental insurance reserve for our liability insurance policy for the train as well as approximately \$843,000 of membership dues collected that the RTA Board elected to set aside as a reserve for future unexpected administrative expenses. Under state law, these funds must be used for administrative expenses. The increase in current liabilities was, in part, due to normal timing differences. We also had a balance of \$400,000 on our \$1.5 million line of credit in the current year for the timing of normal cash flow needs. The line of credit had a \$720,000 balance at June 30, 2017 (See Note G to the financial statements). As mentioned previously, the RTA board members established new cash reserves two years ago for our partners that receive regional bus services in their cities or counties. The reserves, titled advance contributions, were set up in order to stabilize each partner’s annual contribution. These advance contributions totaled \$821,700 at the end of current year compared to approximately \$723,900 last year.

Revenues, Expenses and Changes in Net Position

While the Statements of Net Position show the financial position of RTA at year-end, the Statements of Activities provide answers to the nature and source of the changes in RTA’s financial position.

**REGIONAL TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued**

Fiscal year 2018 as compared to fiscal year 2017:

The increase in net position for the year ended June 30, 2018 was approximately \$4.1 million, or 20.8%, compared to a decrease of approximately \$1.1 million for the year ended June 30, 2017 (See Table A-2). RTA's total program revenues including capital revenues increased 64.5% to approximately \$14.8 million from approximately \$9.0 million in the prior fiscal year. Total functional expenses, including depreciation, increased 4.9% to approximately \$11.0 million from approximately \$10.5 million in the prior fiscal year.

Table A-2
Changes in Regional Transportation Authority's Net Position
(in thousands of dollars)

	2018	2017	Percentage Change 2018 - 2017
Program Revenues:			
Passenger Fares charged for services	\$ 1,827	\$ 1,851	(1.3%)
Operating Grants and Contributions	8,006	6,703	19.4%
Capital Grants and Contributions	4,968	443	1,021.4%
Total program revenues	14,801	8,997	64.5%
General revenues	319	416	(23.3%)
Total revenues	15,120	9,413	60.6%
Functional Expenses:			
R&R / Job Access Reverse Commute	5,324	5,106	4.3%
Commuter Rail - operations	5,701	5,400	5.6%
Total functional expenses	11,025	10,506	4.9%
Increase (decrease) in net position	4,095	(1,093)	474.7%
Total net position, beginning of year	19,654	20,747	(5.3%)
Total net position, end of year	\$23,749	\$19,654	20.8%

The decrease in overall passenger fare revenue was primarily due to a decrease of approximately 5.6% in ridership on our regional bus services. This decrease was partially offset by an increase in ridership of approximately 3.8% on the Music City Star compared to the prior year. The decrease in ridership on our regional bus operation was partially related to some service reliability issues we experienced during the fiscal year from our service providers as well as the ongoing impact from the cancellation or relocation of some of our regional bus park and ride lots. The increase in operating grants and contributions was primarily the result of more grant funding being available for use relative to eligible operating expenses during fiscal year 2018 compared to the prior year. The increase in capital grants and contributions was the result of RTA having more active capital projects in fiscal year 2018 compared to fiscal year 2017. The majority of the current year capital spending was primarily related to our Hamilton Springs project.

**REGIONAL TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued**

Table A-3
Regional Transportation Authority's Functional Expenses
(in thousands of dollars)

	2018	2017	Percentage Change 2018 - 2017
Rideshare Function:			
Regional Bus / JARC Function:			
Operational expenses	\$ 4,875	\$ 4,655	4.7%
Depreciation	449	451	(0.4%)
Commuter Rail Function:			
Operational expenses	4,817	4,527	6.4%
Depreciation	884	873	1.3%
Total operating expenses	\$ 11,025	\$ 10,506	4.9%

The 4.7% increase in Regional Bus and JARC operational expenses was primarily related to the increases in contractual operating costs from both Gray Line and Nashville MTA, our regional service providers, as well as consulting expenses related to possible rebranding of our services. The 6.4% increase in Commuter Rail operating expenses was primarily due to consultant expenses related to our overall oversight of our train operations as well as increased fuel expenses compared to the prior year. The increased fuel expense was primarily related to sporadic maintenance issues with one of our locomotives creating the need to have two locomotives on the same trip for a couple of months to determine the problem with faltering the engine.

**REGIONAL TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued**

CAPITAL ASSETS

Fiscal year 2018 as compared to fiscal year 2017:

At the end of fiscal year 2018, RTA had invested approximately \$20.3 million in net capital assets for a broad range of land, rail stations, revenue vehicles and equipment as shown in Table A-4.

Table A-4
Regional Transportation Authority's Capital Assets
(in thousands of dollars)

	2018	2017	Percentage Change 2018 - 2017
Land	\$ 2,968	\$ 2,968	-
Commuter Rail Stations	11,373	11,301	0.6%
Rolling Stock	3,223	3,312	(2.7%)
Vehicles	2,746	2,796	(1.8%)
Construction and rehabilitation in progress	5,322	437	1,117.8%
Equipment	788	801	(1.6%)
Guideway improvements	3,306	3,306	-
Park and ride lots	978	978	-
Subtotal	30,704	25,899	18.6%
Less Accumulated Depreciation	(10,434)	(9,266)	12.6%
Net Capital Assets	\$ 20,270	\$ 16,633	21.9%

The increase in net capital assets was primarily due to having approximately \$5.0 million in capital additions offset by approximately \$1.3 million of depreciation recorded. The capital additions were primarily the result of continued construction in progress at our Hamilton Springs train station and parking lot. See further information regarding capital assets in Note F to the financial statements.

FUND FINANCIAL ANALYSIS

As noted on the analysis of revenues, expenses and changes in net position, RTA experienced an increase in net position on a government-wide basis of approximately \$4,095,000 – see page 9 for a discussion of the significant changes in revenues and expense. However, the General Fund balance increased by approximately \$457,000. In accordance with appropriate accounting principles, changes in noncurrent liabilities and capital assets are not included in General Fund financial statements. Consequently, the primary reason for the increase being more in the net position in the government-wide statements was the fact that the net increase in capital assets was approximately \$3,637,000.

**REGIONAL TRANSPORTATION AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued**

BUDGET VARIANCES

Differences between our original budget and actual results were primarily related to an under estimation of operating expenses primarily in fuel, marketing outreach, train consulting, and utilities. These underestimations were partially offset by lower train operating contract expenses from our train operator and contingencies that did not materialize. We consequently recognized related revenue sources for those underestimated expenses in our actual revenue reported. The train consulting expenses were not included in the original budget, but did have offsetting certain revenue sources that were recognized as additional operating revenue sources for those expenses.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

RTA's Board of Directors and management considered many factors when setting the fiscal year 2019 budget. These factors include changes in ridership, contract services hourly rates, fuel and liability insurance coverage. Also considered were the anticipated capital grant funding for operations and potential capital projects as well as continuing operating support from all of our regional partners.

CONTACTING RTA'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patrons and other interested parties with a general overview of RTA's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Regional Transportation Authority's Finance Department, 430 Myatt Drive, Madison, TN 37115.

REGIONAL TRANSPORTATION AUTHORITY
Statement of Net Position
June 30, 2018

ASSETS	
Cash	\$ 2,396,763
Due from other governments	3,069,102
Prepaid items	48,872
Inventory	397,934
Restricted cash	1,843,178
Capital assets:	
Capital assets, not being depreciated	8,290,705
Other capital assets, net of depreciation	<u>11,978,925</u>
Total assets	<u>28,025,479</u>
 LIABILITIES	
Accounts payable and accrued expenses	2,732,388
Advanced contributions	829,027
Due to related party, net	315,429
Line of credit	<u>400,000</u>
Total liabilities	<u>4,276,844</u>
 NET POSITION	
Investment in capital assets	20,269,630
Restricted net position	1,843,178
Unrestricted net position	<u>1,635,827</u>
Total net position	<u><u>\$ 23,748,635</u></u>

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

REGIONAL TRANSPORTATION AUTHORITY
Statement of Activities
For the Year Ended June 30, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net Governmental Activities</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>		
GOVERNMENTAL ACTIVITIES						
Relax and Ride and Job Access Reverse Commute	\$ 5,324,257	\$ 845,461	\$ 3,958,469	\$ -	\$ (520,327)	
Commuter Rail Operations	5,700,968	981,248	4,047,461	4,967,840	4,295,581	
Total governmental activities	<u>\$ 11,025,225</u>	<u>\$ 1,826,709</u>	<u>\$ 8,005,930</u>	<u>\$ 4,967,840</u>	<u>3,775,254</u>	
General revenues:						
Membership dues						162,986
Miscellaneous						155,665
Total general revenues						<u>318,651</u>
Change in net position						4,093,905
Net position, beginning						<u>19,654,730</u>
Net position, ending						<u>\$ 23,748,635</u>

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

REGIONAL TRANSPORTATION AUTHORITY
Balance Sheet - Governmental Fund
General Fund
June 30, 2018

ASSETS

Cash	\$ 2,396,763
Due from other governments	3,069,102
Prepaid items	48,872
Inventory	397,934
Restricted cash	<u>1,843,178</u>
 Total assets	 <u><u>\$ 7,755,849</u></u>

LIABILITIES

Accounts payable and accrued expenses	\$ 2,732,388
Advanced contributions	829,027
Due to related party, net	315,429
Line of credit	<u>400,000</u>
 Total liabilities	 <u><u>4,276,844</u></u>

FUND BALANCES

Nonspendable:	
Inventory	397,934
Prepaid items	48,872
Restricted	1,843,178
Unassigned	<u>1,189,021</u>
 Total fund balance	 <u><u>3,479,005</u></u>
 Total liabilities and fund balance	 <u><u>\$ 7,755,849</u></u>

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

REGIONAL TRANSPORTATION AUTHORITY
Reconciliation of the Balance Sheet of the Governmental Fund
to the Statement of Net Position
June 30, 2018

Amounts reported for governmental activities in the Statement of Net Position
are different because:

Total governmental fund balance	\$ 3,479,005
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the governmental fund.	<u>20,269,630</u>
Net position of governmental activities	<u><u>\$ 23,748,635</u></u>

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

REGIONAL TRANSPORTATION AUTHORITY
Statement of Revenues, Expenditures and
Changes in Fund Balance - Governmental Fund
General Fund
For the Year Ended June 30, 2018

REVENUES

Federal grant revenue	\$ 6,997,664
State grant revenue	1,350,022
Other local revenue	4,626,084
Fare revenue	1,826,709
Membership and miscellaneous revenue	318,651
Total operational revenues	15,119,130

EXPENSES

Current:	
Relax and Ride and Job Access Reverse Commute	4,875,505
Commuter Rail Operations	4,816,991
Capital outlay:	
Relax and Ride and Job Access Reverse Commute	-
Commuter Rail Operations	4,969,657
Total expenditures before debt service	14,662,153

NET INCREASE IN FUND BALANCE 456,977

FUND BALANCE AT BEGINNING OF YEAR 3,022,028

FUND BALANCE AT END OF YEAR \$ 3,479,005

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

REGIONAL TRANSPORTATION AUTHORITY
Reconciliation of the Statement of Revenue, Expenditures, and
Changes in Fund Balance of Governmental Fund to the
Statement of Activities
For the Year Ended June 30, 2018

Amounts reported for the governmental activities in the Statement of Activities are different because:

Net change in fund balances - total governmental fund	\$ 456,977
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Specifically, these items are as follows:

Capital asset additions	4,969,657
Net carrying value of capital assets disposed of	-
Depreciation expense	<u>(1,332,729)</u>

Change in net position of governmental activities	<u><u>\$ 4,093,905</u></u>
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The accompanying notes are an integral part of these financial statements.

REGIONAL TRANSPORTATION AUTHORITY
Statement of Activities to Budget Comparison
For the Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Budget Variance</u>
REVENUES			
Full adult fare - R&R	\$ 894,670	\$ 845,461	\$ (49,209)
Full adult fare - Train	832,500	905,056	72,556
Special events	62,910	76,192	13,282
Advertising sales - R&R	35,200	43,680	8,480
Advertising sales - Train	-	2,864	2,864
Rent of building and property	58,590	80,596	22,006
Non-transportation revenue	-	16,655	16,655
Annual membership dues	-	162,986	162,986
Local operating	1,772,708	1,792,316	19,608
Regional operating subsidies	1,292,622	1,384,474	91,852
State operating revenues	1,082,485	1,024,575	(57,910)
JARC	110,680	111,254	574
CMAQ revenues	1,910,042	1,912,058	2,016
Capital operating assistance	1,581,058	1,781,253	200,195
Total operational revenues	<u>9,633,465</u>	<u>10,139,420</u>	<u>505,955</u>
EXPENSES			
Salary-contract admin - R&R	220,932	220,935	(3)
Salary-contract admin - Train	220,932	220,935	(3)
Other fringes - R&R	180,768	180,765	3
Other fringes - Train	180,768	180,765	3
Advertising service and fees - R&R	80,000	181,478	(101,478)
Advertising service and fees - Train	82,400	54,492	27,908
Attorney's fees	55,000	66,392	(11,392)
Outside auditing fees	40,000	28,428	11,572
Web management contract	64,000	69,225	(5,225)
Interest/extension fees - LOC	25,000	22,318	2,682
Bank service charges	6,500	6,898	(398)
Other services - R&R	9,500	-	9,500
Other services - Admin/Master Plan/NW Corridor	6,900	40,726	(33,826)
Other services - Train	164,500	324,143	(159,643)
Emergency ride home	10,000	2,938	7,062
Contract maintenance - TVM's Train	11,000	-	11,000
Contract maintenance - Train Parts/Repairs/Maintenance	120,000	115,121	4,879
Contract maintenance - R&R/MTA	1,570,306	1,593,444	(23,138)
Contract maintenance - R&R/Grayline	2,633,208	2,605,085	28,123
Contract maintenance - Train Shuttle/MTA	168,200	170,213	(2,013)
Contract maintenance - Base Train Service/TSG	1,872,901	1,722,585	150,316
Contract maintenance - Special Service Train/TSG	28,925	32,515	(3,590)
Contract maintenance - Track Rent/NERC	60,000	57,276	2,724
Contract maintenance - Special Track Usage/NERC	11,200	12,621	(1,421)

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

REGIONAL TRANSPORTATION AUTHORITY
Statement of Activities to Budget Comparison - Continued
For the Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Budget Variance</u>
EXPENSES - Continued			
Contract maintenance - Base Track Usage/NERC	588,000	570,718	17,282
Contract maintenance - Train/Train Systems	25,000	32,699	(7,699)
Fuel hedging expense - Train	-	(41,547)	41,547
Diesel fuel - Train	400,200	525,716	(125,516)
M&S general - R&R	500	-	500
M&S general - Train	3,500	4,525	(1,025)
Promotional M&S	3,500	-	3,500
M&S Passenger Stations - Train	2,000	1,425	575
Printing services - R&R	7,000	491	6,509
Printing services - Train Fare Media	45,000	19,465	25,535
Office supplies - Rideshare Admin	425	-	425
Janitorial supplies - Train	2,500	-	2,500
Electric	1,100	67,720	(66,620)
Water/sewer	650	7,348	(6,698)
Telephones - Train	-	2,178	(2,178)
Insurance - PPADO	3,300	3,113	187
Insurance - CS&A	569,050	518,944	50,106
Insurance - Real Property	16,400	15,483	917
Insurance - TPA Claims	6,000	-	6,000
Licensing vehicles	300	225	75
Dues and subscriptions - RTA	27,800	26,617	1,183
Travel and trainings - RTA	2,500	65	2,435
Miscellaneous general	2,000	20,933	(18,933)
Freight charges - RTA	-	13	(13)
Freight charges - Train	6,000	7,067	(1,067)
Contingency	97,800	-	97,800
Total operational expenses	<u>9,633,465</u>	<u>9,692,496</u>	<u>(59,031)</u>
OTHER REVENUE (EXPENSES)			
Capital purchases revenue	-	4,967,840	4,967,840
Depreciation expense	-	(1,332,729)	(1,332,729)
Gain on sale of capital assets	-	11,870	11,870
Total other revenue (expenses)	<u>-</u>	<u>3,646,981</u>	<u>3,646,981</u>
CHANGE IN NET POSITION	<u>\$ -</u>	<u>\$ 4,093,905</u>	<u>\$ 4,093,905</u>

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

REGIONAL TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

A. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Reporting Entity

Regional Transportation Authority (the “Authority”) was created by an act of the Tennessee General Assembly. The Board of Directors of the Authority is charged with the responsibility of developing and overseeing the implementation of a mass transit plan for middle Tennessee, which currently includes Davidson, Sumner, Williamson, Wilson, Robertson, Cheatham, Dickson, Rutherford and Montgomery Counties in Middle Tennessee. Based upon the criteria set forth in the Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, “Defining the Financial Reporting Entity,” the Authority is not a component unit of any other entity due to the judgment that it does not meet the criteria of financial interdependency and other factors that would constitute a component unit. Also, there are no separate organizations, which have been determined to be component units of the Authority.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Authority conform to U. S. generally accepted accounting principles (“GAAP”) as applicable to state and local governments. GAAP for local governments include those principles prescribed by the Governmental Accounting Standards Board (“GASB”). The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with the subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant accounting policies of the Authority are described below.

Government-Wide Financial Statements

The government-wide financial statements (i. e. the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. Governmental activities normally are supported by charges for services and intergovernmental revenues. The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Amounts reported as program revenues include 1.) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by the given function or segment and 2.) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Items not properly included among program revenues are reported instead as general revenues.

REGIONAL TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Governmental Fund Financial Statements

The financial transactions of the Authority are recorded in one fund. The fund is accounted for by providing a set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues, and expenditures.

The Authority reports the following major governmental fund:

General fund - The general fund is the only operating fund of the Authority. It is used to account for all financial resources of the Authority.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues (other than grants) to be available if they are collected within 60 days of the end of the current fiscal period. Grant revenues are recognized when the eligible expenditure has been incurred against a fully executed grant agreement, even if the grantor's reimbursement period extends beyond 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Federal, state, and local grants are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Authority.

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

REGIONAL TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

The Authority qualifies as a tax-exempt organization under Section 115 of the Internal Revenue Code.

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of purchase.

Capital Assets and Depreciation

Capital assets, which include property, equipment and construction in progress, are reported in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are valued at their estimated acquisition value on the date donated. The Authority defines capital assets as assets with an individual cost of more than \$1,000 with a useful life of more than one year. The Authority has no general infrastructure assets.

When capital assets are purchased, they are capitalized and depreciated in the government-wide statements. Capital assets are recorded as expenditures of the current period in the governmental fund financial statements. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation of capital assets is computed and recorded by the straight-line method over the estimated useful lives of the assets. Capital assets of the Authority are depreciated over the following estimated useful lives:

Equipment and vehicles	4 - 10 years
Rolling stock	5 - 10 years
Commuter rail stations and leasehold improvements	40 years

Under the terms of an agreement between the Authority and the Nashville and Eastern Rail Authority ("NERA"), all new facilities constructed on NERA property immediately fall under the exclusive ownership of NERA. Certain facilities may be designated for the exclusive use of the Authority with the concurrence of the Nashville and Eastern Railroad Corporation ("NERC") and NERA so long as the Authority continues to provide commuter rail service.

REGIONAL TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Inventory

Inventory is stated at cost on a first-in, first-out basis. The cost of inventory is recorded as expenditure when consumed. Inventory in the governmental fund is reported within nonspendable fund balance, which indicates that it does not constitute “available spendable resources” even though it is a component of current assets.

Advanced Contributions

Advanced contributions are primarily composed of collections from RTA member organizations held for future use in the event that certain funding is not secured and for other specific purposes. Advanced contributions will be recognized as revenue when the purposes are met.

Fund Equity

Government-Wide Financial Statements

The difference between the Authority’s total assets plus deferred outflows of resources (when applicable) and total liabilities plus deferred inflows of resources (when applicable) represents net position, which is classified into three components:

- *Investment in Capital Assets* - Amount of capital assets, net of accumulated depreciation. If the Authority had debt related to the acquisition or construction of capital assets, this net position category would be presented “net” of such related debt. At June 30, 2018, the Authority had no debt directly related to its capital assets.
- *Restricted Net Position* - Amount of net position that is subject to restrictions that are imposed by 1.) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments or 2.) law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* - Net position that is neither classified as restricted nor as invested in capital assets.

REGIONAL TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Financial Statements

The Authority's financial statements are prepared under the provisions of GASB Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*. In the fund financial statements, the government fund reports aggregate amounts for five classifications of fund balance based on the constraints imposed on the use of these resources.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form - prepaid items or inventories or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

- *Restricted Fund Balance* - This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed Fund Balance* - These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the Authority's Board of Director, which is the highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Board removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The Authority had no committed fund balance at June 30, 2018.
- *Assigned Fund Balance* - This classification reflects amounts constrained by the Authority's "intent" to be used for specific purposes, but are neither restricted nor committed. The Board has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in any governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed. The Authority had no assigned fund balance at June 30, 2018.
- *Unassigned Fund Balance* - This amount is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds (if applicable).

REGIONAL TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use externally restricted resources first, followed by unrestricted resources- committed, assigned and unassigned- in that order, as needed.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

C. RISK MANAGEMENT

The Authority is exposed to various risks of losses related to torts: theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Authority manages this risk by obtaining commercial insurance. Settlement of claims during the three most recent fiscal years did not exceed the Authority's insurance coverage.

The Authority is subject to potential litigation, claims or other legal proceedings arising in the normal course of operations. In the opinion of management, in consultation with legal counsel, there are no current matters which may materially effect the financial position of the Authority.

A lawsuit has been filed by two of the nation's largest railroads challenging the legality of the Tennessee taxes on diesel fuel for locomotives. The taxes are used to provide funding for railway rehabilitation projects for short line railroads operating in Tennessee. The Authority currently leases the Music City Star rail line from the Nashville Eastern Rail Authority to operate its daily commuter rail service between Nashville and Lebanon. The eventual outcome of the litigation as well as the impact on the Authority, if any, is unknown at this time.

D. RELATED PARTY TRANSACTIONS

During the fiscal year ended June 30, 2018, the Authority had two contracts with the Metropolitan Transit Authority ("MTA") to provide mass transit services within the Authority's service area and for management services. In the management contract, MTA provided administrative and personnel services for the Authority at a rate of \$66,950 per month. For the year ended June 30, 2018, the total amount charged for all services and contracts was \$2,477,914. As of June 30, 2018, \$426,265 was due to MTA. Further, during the year ended June 30, 2018, MTA credited or remitted \$1,375,737 to the Authority in public transit farebox collections. As of June 30, 2018, \$110,836 was due from MTA.

REGIONAL TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

E. COMMITMENTS AND CONTINGENCIES

Enabling Legislation

As a government created agency established by the State of Tennessee, the Authority is subject to sunset hearings under the “Tennessee Governmental Entity Review Law.” The sunset hearings review the mission of the Authority and determine if it should be reauthorized to continue. Under the law, the Authority was scheduled to terminate on June 30, 2018, unless continued through an act of the Tennessee General Assembly.

During fiscal year 2017, the Authority participated in the sunset process, which included a performance audit by the State Comptroller’s Office. On November 14, 2017, the Commerce, Labor, Transportation and Agriculture Joint Subcommittee of Government Operations held a sunset hearing for the Authority. At the conclusion of the sunset hearing, the joint subcommittee made a recommendation to extend the Authority two years, through June 30, 2020, and requested that representatives of the Authority appear before the subcommittee no later than December 31, 2018 to report on progress made in addressing findings set forth in the 2017 performance audit. Both the House and Senate unanimously approved the recommendation in April 2018 reauthorizing the RTA for an additional two years with the Governor’s signature coming on May 21, 2018. The Authority is also scheduled to go before the Commerce, Labor, Transportation and Agriculture Joint Subcommittee of Government Operations on December 18, 2018 to report on progress made in addressing findings set forth in the 2017 performance audit. Renewal beyond June 30, 2020 cannot be guaranteed and the financial statements do not reflect any adjustments as a result of this uncertainty.

Grantor Agencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds.

Lease Commitment

During the fiscal year, the Authority made payments pursuant to the terms of a lease agreement with NERC. The lease agreement provides for the use of certain NERC equipment, a maintenance facility, office space, side trackage, and related real property. The lease agreement is effective through September 15, 2036 and currently requires minimum annual payments of approximately \$57,000. The agreement further provides for adjustments to the minimum annual payment every three years to reflect changes in the consumer price index (“CPI”). The current monthly lease payment is \$4,773. See also Note H.

REGIONAL TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

E. COMMITMENTS AND CONTINGENCIES - Continued

The total of lease payments for the year ended June 30, 2018, was \$57,276. The future minimum rental payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 57,276
2020	57,276
2021	57,276
2022	57,276
2023	57,276
2024 - 2028	286,380
2029 - 2033	286,380
2034 - 2037	<u>229,104</u>
	<u>\$1,088,244</u>

Contracts

The Authority is committed to a contract to purchase operations and maintenance services in connection with the commuter rail operations. Under the contract, the vendor supplies certain labor to operate the trains as well as certain maintenance and repair of rolling stock and facilities. The contract was for a term of five years, which expired in September 2016 and was extended through May 2017. The service was extended through an active purchase order until a new five year contract was codified. On January 1, 2018, RTA renewed the contract through January 2022. The contract states a base monthly payment amount as well as charges for additional services. The Authority incurred \$1,755,100 under the contract in fiscal year 2018.

REGIONAL TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

F. CAPITAL ASSETS

	<u>Balance</u> <u>July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2018</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,968,344	\$ -	\$ -	\$ 2,968,344
Construction in progress	<u>436,281</u>	<u>4,949,085</u>	<u>(63,005)</u>	<u>5,322,361</u>
	<u>3,404,625</u>	<u>4,949,085</u>	<u>(63,005)</u>	<u>8,290,705</u>
Capital assets being depreciated:				
Commuter rail stations	11,301,126	71,345	-	11,372,471
Rolling stock	3,311,429	12,232	(101,097)	3,222,564
Vehicles	2,796,018	-	(49,902)	2,746,116
Equipment	801,356	-	(13,751)	787,605
Guideway Improvements	3,305,762	-	-	3,305,762
Park and Rides	<u>978,429</u>	<u>-</u>	<u>-</u>	<u>978,429</u>
	<u>22,494,120</u>	<u>83,577</u>	<u>(164,750)</u>	<u>22,412,947</u>
Less accumulated depreciation:				
Commuter rail stations	(3,264,266)	(354,686)	-	(3,618,952)
Rolling stock	(2,759,376)	(195,291)	101,097	(2,853,570)
Vehicles	(2,289,642)	(234,820)	49,902	(2,474,560)
Equipment	(322,480)	(77,580)	13,751	(386,309)
Guideway Improvements	(385,672)	(330,576)	-	(716,248)
Park and Rides	<u>(244,607)</u>	<u>(139,776)</u>	<u>-</u>	<u>(384,383)</u>
	<u>(9,266,043)</u>	<u>(1,332,729)</u>	<u>164,750</u>	<u>(10,434,022)</u>
Capital assets, being depreciated, net	<u>13,228,077</u>	<u>(1,249,152)</u>	<u>-</u>	<u>11,978,925</u>
Capital assets, net	<u>\$ 16,632,703</u>	<u>\$ 3,699,933</u>	<u>\$(63,005)</u>	<u>\$ 20,269,630</u>
Depreciation was charged to functions as follows:				
Relax and Ride/JARC				\$ 448,752
Commuter Rail				<u>883,977</u>
Total governmental activities depreciation expense				<u>\$1,332,729</u>

REGIONAL TRANSPORTATION AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2018

F. CAPITAL ASSETS - Continued

Construction in progress at June 30, 2018 consisted of the following:

Track Rehab Project	\$1,050,043
Hamilton Springs Station	3,979,497
Other	<u>292,821</u>
	<u>\$5,322,361</u>

Estimated costs to complete construction in progress at June 30, 2018 totaled approximately \$10,700,000. These projects are subject to obtaining certain grant funding.

G. LINE-OF-CREDIT

In April 2015, the Authority entered into an agreement with Fifth-Third Bank for a \$1,500,000 revolving line-of-credit. The line-of-credit was renewed on April 1, 2018. The maturity date is April 1, 2019 and the line-of-credit bore an interest rate of 3.850% as of June 30, 2018.

As collateral for any outstanding balance on the line-of-credit, the Authority has granted the lender a security interest in substantially all of its assets, as more particularly described in a Security Agreement.

A schedule of changes in the line-of-credit obligation is as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decreases</u>	<u>Ending Balance</u>
\$1,500,000 line-of-credit	<u>\$720,000</u>	<u>\$1,305,000</u>	<u>\$(1,625,000)</u>	<u>\$400,000</u>

For the year ended June 30, 2018, \$22,318 of interest and loan extension fees related to the line-of-credit have been included in the program expenses of the commuter rail-operations and the relax and ride job access reverse commute programs.

REGIONAL TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

H. TRACK USAGE AGREEMENT

Based on the terms of the Memorandum of Agreement with NERA and NERC, as amended, and as it relates to the Authority's operation of the Music City Star commuter rail, the Authority has agreed to pay NERC for maintenance-of-way services, dispatching services, rail line capacity committed and certain other items. The fee is \$10.46 per train mile for the first twenty-five thousand train miles, \$7.84 per train mile for the next twenty-five thousand train miles, \$5.23 per train mile for train miles in excess of fifty thousand miles, and \$2.61 per reverse train mile, adjusted for any increases in the CPI every five years for the life of the agreement. During fiscal year 2018, the track usage fees totaled \$583,339.

In accordance with the Memorandum of Agreement with NERA and NERC, as further described in Note J, the Authority must maintain a separate cash reserve account of \$1,000,000.

I. ECONOMIC DEPENDENCE

The Authority's ability to provide program services is significantly dependent on annual appropriations and the awarding of operating grants from Federal, State, and local authorities. A failure to secure funding from these sources would necessitate the discontinuance of the Authority's programs.

J. CASH AND INVESTMENTS

State statutes authorize the Authority to invest operating funds in bonds, notes, or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, and the state pooled investment fund. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction.

Interest rate risk and concentration of credit risk

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. The Authority places no limit on the amount it may invest in any one issuer. During the year ended June 30, 2018, the Authority limited its investment of funds to demand deposits at banking institutions.

REGIONAL TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

J. CASH AND INVESTMENTS - Continued

Custodial credit risk - deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At June 30, 2018, total demand deposits for the Authority were insured and/or collateralized by depository insurance or by collateral held in the Tennessee Bank Collateral Pool. The Tennessee Bank Collateral Pool (the "Pool") is a multiple financial institution collateral pool in which member financial institutions holding public funds pledge collateral securities. In the event any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of the governmental entities. The Pool also has the ability to make additional assessments on a pro rata basis to the Pool if the value of collateral is inadequate to cover a loss.

Restricted cash

As state in Note H above, in accordance with the Memorandum of Agreement with NERA and NERC, the Authority must maintain a separate cash reserve account of \$1,000,000. In addition, according to Section 64-8-206(b)(8), *Tennessee Code Annotated*, the Authority is allowed to establish local assessments for the purposes of paying expenses related to the administration of the Authority's activities, including, but not limited to, the costs associated with insurance policies and deductibles, to be paid by its city, town, metropolitan government and county government members. Local assessments shall not be used for the construction or operation of transportation facilities or services. Since statute specifies the allowable purposes and the limitations of membership dues, they are restricted and are maintained in a separate cash reserve account. As of June 30, 2018, membership dues totaling \$843,178 have accumulated in the cash reserve account. Accordingly, both amounts, totaling \$1,843,178, have been presented as restricted cash with corresponding restricted net position.

K. SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through December 28, 2018, which is the date the financial statements were available to be issued, and determined that there was one subsequent event requiring disclosure. The Authority currently has contract agreements with Nashville & Eastern Railroad Corporation ("NERR") and Transit Solutions Group ("TSG") as it relates to the operation of the Music City Star commuter rail services. In November 2018, R.J. Corman announced it had finalized an agreement to purchase the Nashville & Eastern Railroad Corp.; Nashville & Western Railroad Corp.; Transit Solutions Group, the operator of Nashville's Music City Star commuter railroad; and three other related operating entities. The structure of the sale will result in legal entities remaining intact and will not impact the Authority's current contract agreements that are in place with NERR and TSG. The sale is expected to be finalized in January 2019.

ADDITIONAL INFORMATION

REGIONAL TRANSPORTATION AUTHORITY
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Program Name	CFDA Number	Pass-Through Entity Identifying Number/Grant Number	Balance July 1, 2017 (Receivable)	Cash Receipts	Expenditures	Balance June 30, 2018 (Receivable)
U.S. Department of Transportation:						
Direct Programs:						
<i>Federal Transit Cluster:</i>						
Urbanized Area Formula Program -5309	20.500*	TN-55-0001	\$ (26,458)	\$ 26,458	\$ -	\$ -
Total CFDA 20.500			<u>(26,458)</u>	<u>26,458</u>	<u>-</u>	<u>-</u>
Urbanized Area Formula Program - Capital Cost of Contracting	20.507*	TN-90-X330	-	-	-	-
Urbanized Area Formula Program - 5307 - PM	20.507*	TN-90-X370	(15,492)	175,622	160,130	-
Urbanized Area Formula Program - 5307 - PM	20.507*	TN-90-X362	(20,048)	851,160	1,351,605	(520,493)
Urbanized Area Formula Program - 5307 - PM	20.507*	TN-90-X092	(265,051)	1,000,000	734,949	-
Urbanized Area Formula Program - 5307 - PM	20.507*	TN-90-X418	-	483,236	557,676	(74,440)
Urbanized Area Formula Program - 5307 - PM	20.507*	TN-90-X377	(8,169)	18,608	10,439	-
Urbanized Area Formula Program CMAQ	20.507*	TN-95-X084	(317,161)	1,701,868	1,503,405	(118,698)
Urbanized Area Formula Program CMAQ	20.507*	TN-95-X-101	-	-	220,352	(220,352)
Urbanized Area Formula Program - 5307 Bus Seat Guarantee	20.507*	TN-95-X055	-	-	-	-
Urbanized Area Formula Program - 5307 - Hamilton Springs	20.507*	TN-18-X024	-	-	493,705	(493,705)
Urbanized Area Formula Program - 5307 - Hamilton Springs	20.507*	TN-95-X098	-	1,472,000	1,472,000	-
Total CFDA 20.507			<u>(625,921)</u>	<u>5,702,494</u>	<u>6,504,261</u>	<u>(1,427,688)</u>
Total Federal Transit Cluster			<u>(652,379)</u>	<u>5,728,952</u>	<u>6,504,261</u>	<u>(1,427,688)</u>
Pass-through Programs:						
Passed through Tennessee Department of Transportation:						
Regional Ridesharing Program	20.205	110068-RS	(78,904)	361,733	437,775	(154,946)
Total CFDA 20.205			<u>(78,904)</u>	<u>361,733</u>	<u>437,775</u>	<u>(154,946)</u>
Passed through Metropolitan Transit Authority:						
Job Access Reverse Commute	20.516	TN-37-X088	(4,653)	5,119	55,628	(55,162)
Total CFDA 20.516			<u>(4,653)</u>	<u>5,119</u>	<u>55,628</u>	<u>(55,162)</u>
Total expenditures of federal awards			<u>\$ (735,936)</u>	<u>\$ 6,095,804</u>	<u>\$ 6,997,664</u>	<u>\$ (1,637,796)</u>

* Federal Transit Cluster; major program under OMB Uniform Guidance.

See accompanying notes to schedule of expenditures of federal awards and state financial assistance
and independent auditor's report.

REGIONAL TRANSPORTATION AUTHORITY
Schedule of State Financial Assistance
For the Year Ended June 30, 2018

Program Name	Contract Grant Number	Balance July 1, 2017 (Receivable)	Cash Receipts	Expenditures	Balance June 30, 2018 (Receivable)
Tennessee Department of Transportation:					
Urbanized Area Formula Program - Capital Cost of Contracting Operating Assistance	TN-90-X330	\$ -	\$ -	\$ -	\$ -
Urbanized Area Formula Program - 5307 - PM	98-UROP-S3-011	-	586,800	586,800	-
Urbanized Area Formula Program CMAQ	TN-90-X370	(1,936)	21,952	20,016	-
Urbanized Area Formula Program CMAQ	TN-95-X084	(206,090)	186,748	160,757	(180,099)
Urbanized Area Formula Program - 5307 - PM	TN-95-X101	-	-	27,544	(27,544)
Urbanized Area Formula Program - 5307 - PM	TN-90-X362	(2,506)	96,419	168,949	(75,036)
Urbanized Area Formula Program - 5307 - PM	TN-90-X377	(1,021)	2,326	1,305	-
Urbanized Area Formula Program - 5307 - PM	TN-90-X418	(63,378)	70,215	6,837	-
Relax and Ride Operating Assistance	980416-S3-018	-	-	350,000	(350,000)
Passed through Metropolitan Transit Authority Job Access Reverse Commute	TN-37-X088	(26,632)	-	27,814	(54,446)
Total expenditures of state financial assistance		<u>\$ (301,563)</u>	<u>\$ 964,460</u>	<u>\$ 1,350,022</u>	<u>\$ (687,125)</u>

See accompanying notes to schedule of expenditures of federal awards and state financial assistance and independent auditor's report.

REGIONAL TRANSPORTATION AUTHORITY
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2018

A. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards and state financial assistance include award activity of RTA under programs of the federal and state government, respectively, for the year ended June 30, 2018. The information in the schedule of expenditures of federal awards is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (“CFR”) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the “Uniform Guidance”) and the schedule of state financial assistance is presented in accordance with the requirements of the State of Tennessee. Because these schedules present only a selected portion of the operations of RTA, they are not intended to and do not present the financial position or changes in net position of RTA.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule of expenditures of federal awards and the schedule of state financial assistance are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited to reimbursement. Certain amounts shown on the schedule of expenditures of federal awards and the schedule of state financial assistance represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

C. CONTINGENCY

The grant revenue amounts received are subject to audit and adjustment. If any expenditures are disallowed by the grantor agencies as a result of such an audit, any claim for reimbursement to the grantor agencies would become a liability of RTA. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal and state laws and regulations.

D. DE MINIMIS INDIRECT COST RATE

RTA has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

E. SUBRECIPIENTS

There were no amounts passed through to subrecipients during the year ended June 30, 2018.

OTHER REPORTS

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
Regional Transportation Authority
Nashville, Tennessee

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 general fund of the Regional Transportation Authority (the "Authority") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 28, 2018.

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.

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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001, that we consider to be significant deficiencies.



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 the Finding

The Authority's response to the finding 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.

Crosslin, PLLC

Nashville, Tennessee
December 28, 2018

Independent Auditor's Report on Compliance for the Major
Federal Program and on Internal Control Over Compliance
Required by the Uniform Guidance

Board of Directors
Regional Transportation Authority
Nashville, Tennessee

Report on Compliance for the Major Federal Program

We have audited the Regional Transportation Authority's (the "Authority") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2018. The Authority's major federal program is 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Authority's major federal program 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance 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 the major federal program. However, our audit does not provide a legal determination of the Authority's compliance.



Opinion on the 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 its major federal program for the year ended June 30, 2018.

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Crosslin, PLLC

Nashville, Tennessee
December 28, 2018

REGIONAL TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

SECTION I - SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes x no

Significant deficiency(ies) identified not considered to be material weaknesses? x yes none reported

Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes x no

Significant deficiency(ies) identified not considered to be material weaknesses? yes x none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a)? yes x no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
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Federal Transit Cluster:

20.500/20.507	Federal Transit - Formula Grants (Urbanized Area Formula)
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Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes x no

REGIONAL TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
YEAR ENDED JUNE 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS

A. Internal Control Findings

2018-001 - Fare Revenue Collection Processes

Criteria or specific requirement

The Regional Transportation Authority (“RTA”) utilizes various processes to collect fare revenues for the services it provides. Specifically, fare collection processes include ticket sales and fare validation. All fares for services provided should be collected and deposited within RTA’s bank accounts.

Condition

During June 2016, RTA management requested an internal control review of the fare revenue collection processes. As part of the review, we observed the fare collection processes as stated to be in place by RTA, including ticket sales, fare validation, cash fare collections, ticket inventory management and reconciliation of revenue and ridership. As a result of the review and our related observations, we noted that not all existing polices are being followed and additional policies and processes should be implemented. We made several recommendations to management to improve the revenue collection processes.

Context

RTA provides various transit services within Middle Tennessee, including the Music City Star, a regional commuter rail, and Relax and Ride, a regional commuter bus service. RTA charges standard fares to its customers for providing these services. Fares are reported as revenues in the financial statements and are used to support RTA’s operating costs. RTA contracts with third party vendors for a significant portion of its operations.

Effect

If internal controls are not operating effectively, fare revenues that should be collected for services provided may not be appropriately collected, deposited into RTA’s bank account and reflected in the financial statements.

Cause

The established fare revenue collection policies and related processes are not being followed in all instances. Additional processes are also needed to add additional controls and to ensure that existing policies are being followed and operating effectively.

REGIONAL TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
YEAR ENDED JUNE 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS - Continued

A. Internal Control Findings - Continued

2018-001 - Fare Revenue Collection Processes - Continued

Recommendations

As part of the internal control review, we made several recommendations to management, which are summarized as follows:

- RTA officials should have regular meetings with the third-party vendors employing bus drivers and train operators to continually review their procedures. This should include ensuring that all bus and train passengers are checked for a fare card, Easy Ride card, or some form of payment for rides on-board R&R bus routes.
- Additionally, it is recommended that RTA develop and utilize a robust secret rider / route checker program. Such secret riders should ride buses and trains to ensure fare validation is occurring in accordance with RTA policy. All routes should be covered by the secret rider program using regular but random methodology.
- RTA should consider installing, or requiring the vendor to install, cameras in all vehicles and train cars. Video footage should be regularly reviewed to ensure that fare validation is occurring, and to protect RTA in any other questionable areas or events.
- RTA should develop and install signage at all stations and in all vehicles informing customers that they should always be asked to validate their fares. The signage should instruct customers that if an operator does not properly validate a fare, the customer should call RTA's Customer Care to describe the situation.
- RTA should perform a monthly surprise count of unsold tickets and related cash on hand for sold tickets for each train conductor's bag. This will ensure completeness of support for all 60 tickets issued by RTA to each conductor.
- RTA should investigate with its software vendor the possibility of creating a database report to reflect inventory by ticket type as well as by sequence number issued to each specific location. This report could then be used to reconcile ticket inventory reported as sold and ticket inventory reported as unsold by location. This process and reconciliation will help to account for the complete population of inventory issued by RTA to the respective locations and help to ensure any missing or potentially stolen tickets are detected on a timely basis.
- The RTA Fare Administrator should run a report listing all tickets that are still held in stock with RTA by sequential number. RTA should compare beginning serial numbers on this report to the next physical ticket number available to be pulled for ticket orders. If the ticket numbers differ, RTA should timely investigate the discrepancy. Additionally, a person independent of the Fare Media Administrator should perform periodic surprise physical inventory counts of the ticket stock and compare the stock on-hand to the available tickets report.

REGIONAL TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
YEAR ENDED JUNE 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS - Continued

A. Internal Control Findings - Continued

2018-001 - Fare Revenue Collection Processes - Continued

- In order to more precisely ensure that State Easy Ride passengers counts are properly reflected on invoices to the State, it is recommended that RTA perform counts of State Easy Ride passengers on a more frequent basis. Specifically, RTA should follow the procedures for passenger sampling which are prescribed in the National Transit Database and Federal Transit Administration Circulars. Using these sampling and counting strategies will help to ensure that RTA has an appropriate basis for determining ridership levels and for invoicing the State.
- RTA should develop detailed analysis relating to passengers ridership and the related revenues. Specifically, ridership statistics should be compared to related revenues collected on a routine basis (i.e., at least monthly). Reports should be developed for analyses by Senior Management and the Board to review revenue and ridership trends. Revenue per ride statistics should be compared to fare prices for reasonableness. Relevant revenue and ridership reports, coupled with the other recommendations in this report will help to identify any material inconsistencies in revenues.

Views of Responsible Officials and Planned Corrective Actions

Management concurs with the findings identified in the auditor report. See pages 44 through 45 for the planned corrective actions and respective target dates for each recommendation noted above.

B. Compliance Findings

None reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

REGIONAL TRANSPORTATION AUTHORITY
 VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS
 2018-001 - FARE COLLECTION PROCESS
 YEAR ENDED JUNE 30, 2018

Finding/Recommendation		Corrective Action Plan	Target Date
RTA officials should have regular meetings with the third-party vendors employing bus drivers and train operators to continually review their procedures. This should include ensuring that all bus and train passengers are checked for a fare card, EasyRide card, or some form of payment for rides provided.	1	RTA management was already meeting with vendors on a regular basis on a variety of topics. Going forward, the meetings will occur, at a minimum, on a monthly basis and will include a review of fare collection processes and procedures and a review of any customer complaints or issues raised through a new secret rider program being implemented.	Completed. March 1, 2017 and ongoing
RTA should develop and utilize a robust secret rider/route checker program. Such secret riders should ride buses and trains to ensure fare validation is occurring in accordance with RTA policy. All routes should be covered by the secret rider program using regular but random methodology.	2	RTA entered into a contract with a third-party vendor to perform secret ride checks on both bus and train services as well as several other areas, from observation of security to monitoring of customer care. The vendor will be expected to perform an agreed upon number of observations per month. Observations will be conducted based on a weighted sample of bus and train routes provided by RTA. A scoring matrix was developed that measures applicable characteristics that management wanted measured that is filled out for each trip taken by secret riders.	Completed. February 7, 2017 and ongoing
RTA should consider installing, or requiring the vendor to install, cameras in all vehicles and train cars. Video footage should be regularly reviewed to ensure that fare validation is occurring, and to protect RTA in any other questionable areas or events.	3	RTA looked into installation of cameras on the train through its capital projects budget. In discussions with its bus vendor, the capital outlay would be too great for the vendor to consider, especially since vendor buses are used for other things besides public transportation. Management feels that the secret rider program will be effective enough to overcome not having cameras on the buses.	No definitive date. Depends on availability of Capital Funding. ongoing
RTA should develop and install signage at all stations and in all vehicles informing customers that they should always be asked to validate their fares. The signage should instruct customers that if an operator does not properly validate a fare, the customer should call RTA's Customer Care to describe the situation.	4	RTA has already installed new signage on the trains informing riders that all tickets must be validated. Verbiage on the signs is currently being updated to include a hotline to call if their tickets are not validated or checked. Management has identified a location on the third-party buses to post similar signage and is in the process of installing appropriate signage.	Completed. March 31, 2017
RTA should perform a monthly surprise count of unsold tickets and related cash on hand for sold tickets for each train conductor's bag. This will ensure completeness of support for all 60 tickets issued by RTA to each conductor.	5	RTA management is currently developing a schedule to perform surprise inspections of conductor ticket bags to ensure accuracy and compliance. Surprise inspections will begin in April 2017 and will occur randomly going forward.	Completed. April 2017 and ongoing

REGIONAL TRANSPORTATION AUTHORITY
 VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS
 2018-001 - FARE COLLECTION PROCESS - CONTINUED
 YEAR ENDED JUNE 30, 2018

Finding/Recommendation		Corrective Action Plan		Target Date
RTA should investigate with its software vendor the possibility of creating a database report to reflect inventory by ticket type as well as by sequence number issued to each specific location. This report could then be used to reconcile ticket inventory reported as sold and ticket inventory reported as unsold by location. This process and reconciliation will help to account for the complete population of inventory issued by RTA to the respective locations and help to ensure any missing or potentially stolen tickets are detected on a timely basis.	6	RTA has worked with its software vendor and created separate databases for each location selling tickets that will allow for RTA's Fare Administrator to examine by ticket type and/or ticket sequence. The separate databases are updated monthly for tickets sold or issued to consignees in order to maintain control of all ticket inventory.		Completed. February 1, 2017
The RTA Fare Administrator should run a report listing all tickets that are still held in stock with RTA by sequential number. RTA should compare beginning serial numbers on this report to the next physical ticket number available to be pulled for ticket orders. If the ticket numbers differ, RTA should timely investigate the discrepancy. Additionally, a person independent of the Fare Media Administrator should perform periodic surprise physical inventory counts of the ticket stock and compare the stock on-hand to the available tickets report.	7	RTA has worked with its software vendor and created a report in the bulk sales module that will be used each time a ticket order is filled to verify the previous ending serial number ensuring tickets are sold in sequence. Effective February 15, 2017, RTA's Fare Administrator began utilizing the report successfully. A new process has also been implemented that someone independent of the Fare Administrator will conduct surprise inventory checks at least once per quarter and document and investigate any discrepancies.		Completed. February 15, 2017 and ongoing
In order to more precisely ensure that State EasyRide passenger counts are properly reflected on invoices to the State, it is recommended that RTA perform counts of State EasyRide passengers on a more frequent basis. Specifically, RTA should follow the procedures for passenger sampling which are prescribed in the National Transit Database and Federal Transit Administration Circulars. Using these sampling and counting strategies will help to ensure that RTA has an appropriate basis for determining ridership levels and for invoicing the State.	8	RTA management tested three electronic counting software systems not only for State EasyRide passengers, but for all passengers that validate their train ride with a smart card. Since February 1, 2017, RTA has been building a passenger database based upon the radio frequency identification (RFID) number imbedded in the cards. Effective March 31, 2017, a 100% count will be done on all train trips and the RFID software will allow us to do 100% billing for all rides to our EasyRide customers and effectively guarantee 100% collection of all fare revenues.		Completed. March 31, 2017 and ongoing
RTA should develop detailed analysis relating to passengers ridership and the related revenues. Specifically, ridership statistics should be compared to related revenues collected on a routine basis (i.e., at least monthly). Reports should be developed for analyses by Senior Management and the Board to review revenue and ridership trends. Revenue per ride statistics should be compared to fare prices for reasonableness. Relevant revenue and ridership reports, coupled with the other recommendations in this report will help to identify any material inconsistencies in revenues.	9	RTA has already developed statistical analysis worksheets to review average fare collections per customer that will raise red flags when there is an exception outside normal trends to investigate. This is now being reviewed on a monthly basis.		Completed. February 1, 2017 and ongoing

REGIONAL TRANSPORTATION AUTHORITY
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

Financial Statement Findings

Prior Year Finding Number	Finding Title	Status
2017-001	Fare Revenue Collection Process	Partially Repeated/ Partially Corrected See Finding 2018-001

Federal Awards Findings and Questioned Costs

None reported.