

**CARROLL-HENRY COUNTY
RAILROAD AUTHORITY**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

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CARROLL-HENRY COUNTY RAILROAD AUTHORITY
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2013

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INTRODUCTORY SECTION

CARROLL-HENRY COUNTY RAILROAD AUTHORITY

ROSTER OF OFFICIALS

JUNE 30, 2013

<u>Officials</u>	<u>Position</u>
Brent Greer	Chairman (Henry County)
Kreg Kyle	Director (Henry County)
Kenny McBride	Director (Carroll County)
John Mann	Director (Carroll County)

FINANCIAL SECTION

DURHAM NUNNERY POYNER & WALTERS PC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Carroll-Henry County Railroad Authority
Paris, Tennessee

We have audited the accompanying financial statements of the governmental activities and the major fund of the Carroll-Henry County Railroad Authority as of and for the year ended June 30, 2013, 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 major fund of the Carroll-Henry County Railroad Authority as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The Carroll-Henry County Railroad Authority has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was made for the purpose of forming opinions on the financial statements taken as a whole. The introductory section and other supplementary information are presented for purposes of additional analysis and are not a required part of the basis financial statements nor are the schedules required supplementary information of the Carroll-Henry County Railroad Authority. The other supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements

themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2013, on our consideration of the Carroll-Henry County Railroad Authority's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Durham, Nunnery, Poyner & Walters, P.C.

Durham, Nunnery, Poyner & Walters, P.C.
Certified Public Accountants
December 19, 2013

CARROLL-HENRY COUNTY RAILROAD AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2013

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 103,481
Accounts Receivable	11,848
Prepaid Expense	425
TOTAL ASSETS	\$ 115,754
<u>LIABILITIES</u>	
Accounts Payable	\$ 11,287
Total Liabilities	11,287
<u>NET ASSETS</u>	
Unrestricted	104,467
Total Net Assets	104,467
TOTAL LIABILITIES AND NET ASSETS	\$ 115,754

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

CARROLL-HENRY COUNTY RAILROAD AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Governmental Activities - by Function

EXPENSES	Governmental Activities - by Function		
	TOTAL	Administration	Track & Bridge
Track and Bridge Rehabilitation	\$ 421,356	\$ -	\$ 421,356
Engineering Fees	77,403	-	77,403
Audit Services	3,000	3,000	-
Administrative Expenses (Accounting)	2,600	2,600	-
Board Member Fees	1,400	1,400	-
Office Expense	42	42	-
Dues and Subscriptions	500	500	-
Miscellaneous	717	717	-
Advertising	223	-	223
Total Expenses	507,241	8,259	498,982
Program Revenues			
Operating Grants and Contributions:			
Department of Military - TEMA (Tennessee)	2,211	-	2,211
Department of Transportation (Tennessee)	524,598	-	524,598
Total Program Revenues	526,809	-	526,809
Net Program Revenue (Expense)	19,568	\$ (8,259)	\$ 27,827
General Revenues:			
Investment Earnings - Interest	280		
Total General Revenues	280		
Change in Net Assets	19,848		
Net Assets - Beginning of Year	84,619		
Net Assets - End of Year	\$ 104,467		

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

CARROLL-HENRY COUNTY RAILROAD AUTHORITY
BALANCE SHEET - GOVERNMENTAL FUND TYPE
JUNE 30, 2013

	General Fund
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 103,481
Accounts Receivable	11,848
Prepaid Expense	<u>425</u>
TOTAL ASSETS	<u>\$ 115,754</u>
 <u>LIABILITIES AND FUND BALANCES</u>	
Liabilities:	
Accounts Payable	<u>\$ 11,287</u>
Total Liabilities	<u>11,287</u>
 Fund Balances:	
Nonspendable:	
Prepays	425
Unassigned	<u>104,042</u>
Total Fund Balances	<u>104,467</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 115,754</u>

Reconciliation to the Statement of Net Assets:

For the present period, there are no adjustments required.

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

CARROLL-HENRY COUNTY RAILROAD AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2013

	<u>General Fund</u>
<u>REVENUES</u>	
<u>State of Tennessee - Public Works Grants:</u>	
Department of Transportation (Tennessee)	\$ 524,598
Department of Military - TEMA (Tennessee)	2,211
<u>Other Local Revenues - Recurring Items:</u>	
Investment Earnings - Interest	280
Total Revenues	<u>527,089</u>
<u>EXPENDITURES</u>	
<u>Contracted Services:</u>	
Track and Bridge Rehabilitation	421,356
Engineering Fees	77,403
Audit Services	3,000
Administrative Expenses (Accounting)	2,600
Dues and Subscriptions	500
Miscellaneous	717
Advertising	223
<u>Per Diem & Fees:</u>	
Board Member Fees	1,400
<u>Supplies and Materials:</u>	
Office Expense	42
Total Expenditures	<u>507,241</u>
Change in Fund Balance	19,848
Fund Balance - Beginning	<u>84,619</u>
Fund Balance - Ending	<u>\$ 104,467</u>

Reconciliation to the Statement of Activities:

For the period presented, there are no adjustments required.

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

CARROLL-HENRY COUNTY RAILROAD AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Carroll-Henry County Railroad Authority (Authority) are described below to enhance the usefulness of the financial statements.

Organization

The Carroll-Henry County Railroad Authority was jointly created in November 1988 by Carroll County and Henry County, Tennessee pursuant to TCA 7-56-201. The Authority was established as a conduit for payment of funds between the Tennessee Department of Transportation (TDOT) and the Kentucky-West Tennessee Railroad Company (KWT) to rehabilitate the railroad between the Kentucky state line and Bruceton, Tennessee, including a lead to Spinks Clay Company near Henry, Tennessee. The Authority is comprised of four members. One member from each county is appointed by the County Commission, and the county executive/mayor of each county serves as a member and rotates every two years as chairman.

Financial Reporting Entity

In evaluating how to define the Authority, for financial reporting purposes, management has considered the criteria set forth in the *Governmental Accounting Standards Board (GASB), Statement No. 14, The Financial Reporting Entity*. The elements of the financial reporting entity are the primary government and, under certain circumstances, a component unit. In general, a primary government has a separately elected governing body, is legally separate and is fiscally independent. The basic criterion for including a potential component unit within the reporting entity is whether the primary government is financially accountable for the component unit.

The primary government is financially accountable if it appoints a voting majority of a component unit's governing body and either: 1) has the ability to impose its will on the component unit or 2) there is the potential for the component unit to provide financial benefits or impose financial burdens on the primary government.

Based on these criteria, there are no components units of the Authority.

Measurement Focus/Basis of Accounting

The accounting and reporting policies of the Authority conform to generally accepted accounting principles applicable to government as defined in the *Statements of Governmental Accounting Standards Board (GASB)*. The financial statements are prepared on the basis of GASB Statement Number 34, *Basic Financial Statements, Management's Discussion and Analysis for State and Local Governments* and related standards. This standard mandates government-wide (component unit-wide) financial statements of net assets and activities, which are presented on the "economic resources" measurement focus and accrual basis of accounting. It also requires, if applicable, that certain fixed assets be recorded at cost less accumulated depreciation.

CARROLL-HENRY COUNTY RAILROAD AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

The Authority also is required to present fund financial statements for all of the funds relevant to the operations of the Authority. The measurement focus and basis of accounting used for the fund financial statements is determined by the fund type.

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which are comprised of its assets, liabilities, fund balance, revenues and expenditures. The fund types used by the Authority are described follows:

- General Fund – The General Fund is classified as a Governmental Fund Type and uses the current financial resources measurement focus and the modified accrual basis of accounting whereby revenues are recognized when measurable and available and expenditures are recognized when liabilities are incurred. 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 30 days after year-end. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by provider have been met and the revenues are available. The Authority considers grants and similar revenues to be available if they are collected within 60 days after year end. If applicable, general capital asset acquisitions are reported as expenditures and proceeds of debt instruments are reported as other financing sources.

The General Fund is the only fund currently utilized by the Authority.

Budget

The Authority is required to prepare and adopt an annual budget. Once approved, the Authority may amend the legally adopted budget when unexpected circumstances arise that require modifications in estimated revenues and expenditures. Each amendment must have Board approval. Such amendments are to be made before the fact, to be reflected in the official minutes of the Board, and to be made prior to year-end. The budgetary comparison schedule, as listed in the table of contents, is in accordance with generally accepted accounting principles (GASB Statement No. 34). The budgetary basis of accounting for the fund is the same as the basis of accounting utilized by the Authority's general fund.

Capitalized Interest

The Authority capitalizes interest expense incurred during periods of construction. There was no interest expense during the period; and, consequently, no interest expense was required to be capitalized.

Compensated Absences

The Authority has no employees.

CARROLL-HENRY COUNTY RAILROAD AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Income Taxes

Because the Authority is considered a governmental unit, it is not subject to income taxes and no amount for taxes has been recorded in the accompanying statements.

NOTE 2 – DEPOSITS AND CUSTODIAL CREDIT RISK

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority's deposits may not be returned or the Authority will not be able to recover collateral securities in the possession of an outside party. State statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits. Further, state statutes require that the collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the Board.

The reconciled bank account balance of the Authority at year-end was \$103,481, while the bank balance was \$163,809. The deposits are considered insured by the Federal Depository Insurance Corporation (FDIC).

NOTE 3 - RISK MANAGEMENT

The Authority does not provide insurance coverage. However, the officers of the Authority are covered by a \$25,000 fidelity blanket bond.

NOTE 4 – FIXED ASSETS

All fixed assets are owned by the KWT Railroad, not the Carroll-Henry County Railroad Authority.

NOTE 5 – NOTE PAYABLES

There were no note payables existing at year end. In addition, the Authority did not engage in any long-term debt transactions during the year.

NOTE 6 – COMMITMENTS

Each grant agreement that the Authority enters into with the State of Tennessee, Department of Transportation, requires that the Authority and KWT Railway, Inc. (Operator) provide rail service for a period of five years following the date of each grant.

NOTE 7 – SUBSEQUENT EVENTS

There were no subsequent events that occurred after the fiscal year end and through the date of the auditor's report that would require adjustment or disclosure to the financial statements.

SUPPLEMENTARY INFORMATION

**CARROLL-HENRY COUNTY RAILROAD AUTHORITY
 SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2013**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Department of Transportation	\$ 888,511	\$ 1,111,425	\$ 524,598	\$ (586,827)
Department of Military	-	-	2,211	2,211
Investment Earnings - Interest	500	500	280	(220)
Total Revenues	889,011	1,111,925	527,089	(584,836)
Expenditures				
Track and Bridge Rehabilitation	806,013	1,010,733	421,356	589,377
Engineering Fees	62,378	76,476	77,403	(927)
Administrative Expenses (Accounting)	2,600	2,600	2,600	-
Advertising	1,000	2,000	223	1,777
Audit Services	4,000	4,000	3,000	1,000
Board Member Fees	1,600	1,600	1,400	200
Office Expense	200	200	42	158
Membership Dues	500	750	500	250
Miscellaneous	2,000	2,000	717	1,283
Total Expenditures	880,291	1,100,359	507,241	593,118
Change in Fund Balance	\$ 8,720	\$ 11,566	\$ 19,848	\$ 8,282

CARROLL-HENRY COUNTY RAILROAD AUTHORITY
Supplementary Information
Schedule of Expenditure of Federal Awards
For the Year Ended June 30, 2013

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Grant Number</u>	<u>Federal CFDA Number</u>	<u>Grants (Receivable) / Deferred 7/1/2012</u>	<u>Cash Receipts</u>	<u>Earned/ Expended</u>	<u>Grants (Receivable) / Deferred 6/30/2013</u>
There were no federal awards received.			\$ -	\$ -	\$ -	\$ -
			<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Carroll-Henry County Railroad Authority, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CFDA = Catalog of Federal Domestic Assistance
N/A = Not Applicable
(1) = Information Not Available

**CARROLL-HENRY COUNTY RAILROAD AUTHORITY
SUPPLEMENTARY INFORMATION
SCHEDULE OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2013**

State Grantor/Pass-through Grantor/Program Title	Grant Number	Grants (Receivable) / Deferred 7/1/2012	Cash Receipts	Earned/ Expended	Grants (Receivable) / Deferred 6/30/2013
Department of Transportation					
Division of Multimodal Transportation Resources					
Track Engineering Services	Z-10-220825-00	\$ -	\$ 281	\$ 281	\$ -
Special Engineering Services	Z-11-RE2044-00	-	12,342	12,342	-
Track Rehabilitation	Z-12-RR1017-00	(296,475)	606,315	309,840	-
Track Rehabilitation	Z-12-RR1019-00	(47,880)	128,849	80,969	-
Bridge Engineering Services	Z-12-RE1004-00	-	23,929	23,929	-
Track Engineering Services	Z-12-RE1022-00	-	22,692	24,162	(1,470)
Bridge Inspection Compliance	Z-12-RE1040-00	-	6,728	6,728	-
Bridge Rehabilitation	Z-13-RR1003-00	-	55,324	56,385	(1,061)
Bridge Engineering Services	Z-13-RE2002-00	-	645	9,962	(9,317)
Department of Military					
Division of Tennessee Emergency Management Agency					
Public Assistance Grant	(1)	-	2,211	2,211	-
		<u>\$ (344,355)</u>	<u>\$ 859,316</u>	<u>\$ 526,809</u>	<u>\$ (11,848)</u>

NOTES TO SCHEDULE OF STATE FINANCIAL ASSISTANCE

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of state financial assistance includes the state grant activity of the Carroll-Henry County Railroad Authority, and is presented on the accrual basis of accounting. Rounding may have been used on this schedule.

N/A = Not Applicable
(1) = Information Not Available

INTERNAL CONTROL AND COMPLIANCE SECTION

DURHAM NUNNERY POYNER & WALTERS PC
CERTIFIED PUBLIC ACCOUNTANTS

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PHONE 731-584-4448 * FAX 731-584-4417

**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
Carroll-Henry County Railroad Authority
Paris, Tennessee

We have audited, 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, the financial statements of the governmental activities and the major fund of the Carroll-Henry County Railroad Authority (Authority) as of and for the year ended June 30, 2013, and the related notes to the financials statements and have issued our report thereon dated December 19, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, 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*.

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.

Durham, Nunnery, Poyner & Walters, P.C.

Durham, Nunnery, Poyner & Walters, P.C.
Certified Public Accountants
December 19, 2013

**CARROLL-HENRY COUNTY RAILROAD AUTHORITY
SCHEDULE OF PRIOR AUDIT FINDINGS – STATUS
FOR THE YEAR ENDED JUNE 30, 2013**

Government Auditing Standards require auditors to report on the status of uncorrected findings from prior audits. Presented below is the summarized data related to the prior year's (June 30, 2012) audit findings:

There were no findings reported in the prior year.
