

**CARROLL-HENRY COUNTY
RAILROAD AUTHORITY**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

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CARROLL-HENRY COUNTY RAILROAD AUTHORITY
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2015

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INTRODUCTORY SECTION

CARROLL-HENRY COUNTY RAILROAD AUTHORITY

ROSTER OF OFFICIALS

JUNE 30, 2015

<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

Report on the Financial Statements

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, 2015, 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, 2015, and the respective changes in financial position and the budgetary comparison for the General fund 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.

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 basic 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 January 5, 2016, 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
January 5, 2016

CARROLL-HENRY COUNTY RAILROAD AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2015

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 87,057
Accounts Receivable	-
Prepaid Expense	<u>300</u>
TOTAL ASSETS	<u><u>\$ 87,357</u></u>
<u>LIABILITIES</u>	
Accounts Payable	<u>\$ -</u>
Total Liabilities	<u>-</u>
<u>NET POSITION</u>	
Unrestricted	<u>87,357</u>
Total Net Position	<u>87,357</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 87,357</u></u>

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, 2015

<u>EXPENSES</u>	Governmental Activities - by Function		
	TOTAL	Administration	Track & Bridge
Track and Bridge Rehabilitation	\$ -	\$ -	\$ -
Engineering Fees	-	-	-
Audit Services	3,230	3,230	-
Administrative Expenses (Accounting)	2,600	2,600	-
Board Member Fees	800	800	-
Office Expense	49	49	-
Dues and Subscriptions	225	225	-
Miscellaneous	1,150	1,150	-
Advertising	-	-	-
Total Expenses	8,054	8,054	-
<u>Program Revenues</u>			
Operating Grants and Contributions:			
Department of Military - TEMA (Tennessee)	-	-	-
Department of Transportation (Tennessee)	-	-	-
Other Revenues:			
Miscellaneous Income & Refunds	-	-	-
Total Program Revenues	-	-	-
Net Program Revenue (Expense)	(8,054)	\$ (8,054)	\$ -
<u>General Revenues:</u>			
Investment Earnings - Interest	138		
Total General Revenues	138		
Change in Net Position	(7,916)		
Net Position - Beginning of Year	95,273		
Net Position - End of Year	\$ 87,357		

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

CARROLL-HENRY COUNTY RAILROAD AUTHORITY
BALANCE SHEET - GOVERNMENTAL FUND TYPE
JUNE 30, 2015

	<u>General Fund</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 87,057
Accounts Receivable	-
Prepaid Expense	<u>300</u>
TOTAL ASSETS	<u>\$ 87,357</u>
 <u>LIABILITIES AND FUND BALANCES</u>	
Liabilities:	
Accounts Payable	<u>\$ -</u>
Total Liabilities	<u>-</u>
 Fund Balances:	
Nonspendable:	
Prepays	300
Unassigned	<u>87,057</u>
Total Fund Balances	<u>87,357</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 87,357</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, 2015

	<u>General Fund</u>
<u>REVENUES</u>	
<u>State of Tennessee - Public Works Grants:</u>	
Department of Transportation (Tennessee)	\$ -
Department of Military - TEMA (Tennessee)	-
<u>Other Local Revenues - Recurring Items:</u>	
Miscellaneous Income & Refunds	0
Investment Earnings - Interest	138
	<hr/>
Total Revenues	138
	<hr/>
<u>EXPENDITURES</u>	
<u>Contracted Services:</u>	
Track and Bridge Rehabilitation	-
Engineering Fees	-
Audit Services	3,230
Administrative Expenses (Accounting)	2,600
Dues and Subscriptions	225
Miscellaneous	1,150
Advertising	-
<u>Per Diem & Fees:</u>	
Board Member Fees	800
<u>Supplies and Materials:</u>	
Office Expense	49
	<hr/>
Total Expenditures	8,054
	<hr/>
Change in Fund Balance	(7,916)
Fund Balance - Beginning	95,273
	<hr/>
Fund Balance - Ending	\$ 87,357
	<hr/> <hr/>

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
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
ACTUAL (BUDGETARY BASIS) AND BUDGET - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Actual Revenues / Expenditures Budgetary Basis	Budgeted Amounts		Variance with Final Budget Positive (Negative)
		Original	Final	
REVENUES				
<u>State of Tennessee - Public Works Grants:</u>				
Department of Transportation (Tennessee)	\$ -	\$ 50,712.00	\$ -	\$ -
Department of Military - TEMA (Tennessee)	-	-	-	-
<u>Other Local Revenues - Recurring Items:</u>				
Miscellaneous Income & Refunds	-	-	-	-
Investment Earnings - Interest	138	200	200	(62)
Total Revenues	138	50,912	200	(62)
EXPENDITURES				
<u>Contracted Services:</u>				
Track and Bridge Rehabilitation	-	50,712	-	-
Engineering Fees	-	-	-	-
Audit Services	3,230	4,000	4,000	770
Administrative Expenses (Accounting)	2,600	2,600	2,600	-
Dues and Subscriptions	225	500	600	375
Miscellaneous	1,150	500	900	(250)
Advertising	-	100	-	-
<u>Per Diem & Fees:</u>				
Board Member Fees	800	1,600	1,600	800
<u>Supplies and Materials:</u>				
Office Expense	49	200	200	151
Total Expenditures	8,054	60,212	9,900	1,846
Change in Fund Balance	(7,916)	(9,300)	(9,700)	1,784
Fund Balance - Beginning	95,273	95,273	95,273	-
Fund Balance - Ending	\$ 87,357	\$ 85,973	\$ 85,573	\$ 1,784

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

CARROLL-HENRY COUNTY RAILROAD AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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.

Government-wide and Fund 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 operating activities of the Authority.

The statement of activities demonstrates the degree to which the direct expenses of the given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a 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.

Separate financial statements are provided for governmental funds.

CARROLL-HENRY COUNTY RAILROAD AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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 the 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 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 annual budget adopted is in accordance with generally accepted accounting principles. 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.

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.

CARROLL-HENRY COUNTY RAILROAD AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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 \$87,057, while the bank balance was \$87,057. 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.

NOTE 8 – SOURCE OF FUNDING AND GOING CONCERN

As noted earlier, the Authority is a conduit between the Tennessee Department of Transportation (TDOT) and the Kentucky-West Tennessee Railroad Company for railroad maintenance. Therefore, any decrease in the funding of railroad projects by TDOT would have a corresponding effect on the Authority's funding sources. If TDOT funding ceased, the Authority's ability or justification as a continuing entity would have to be considered within a reasonable time frame.

SUPPLEMENTARY INFORMATION

**CARROLL-HENRY COUNTY RAILROAD AUTHORITY
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2015**

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Grant Number</u>	<u>Federal CFDA Number</u>	<u>Grants (Receivable) / Deferred 7/1/2014</u>	<u>Cash Receipts</u>	<u>Earned/ Expended</u>	<u>Grants (Receivable) / Deferred 6/30/2015</u>
There was no federal award activity during the year.			\$ -	\$ -	\$ -	\$ -
			<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.

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, 2015**

<u>State Grantor/Pass-through Grantor/Program Title</u>	<u>Grant Number</u>	<u>Grants (Receivable) / Deferred 7/1/2014</u>	<u>Cash Receipts</u>	<u>Earned/ Expended</u>	<u>Grants (Receivable) / Deferred 6/30/2015</u>
There was no state financial assistance activity during the year.		\$ -	\$ -	\$ -	\$ -
		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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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CAMDEN, TN 38320
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, 2015, and the related notes to the financials statements and have issued our report thereon dated January 5, 2016.

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 our auditing procedures that are appropriate in the circumstances 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. 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

We noted certain matters that we reported to management in a separate letter dated January 5, 2016.

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
January 5, 2016

**CARROLL-HENRY COUNTY RAILROAD AUTHORITY
SCHEDULE OF PRIOR AUDIT FINDINGS – STATUS
FOR THE YEAR ENDED JUNE 30, 2015**

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, 2014) audit findings:

There were no findings reported in the prior year.
