

**Volunteer State Cooperative
Audited Financial Statements
Year Ended June 30, 2012**

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INDEPENDENT AUDITOR'S REPORT

Executive Board
Volunteer State Cooperative
Dover, Tennessee

We have audited the accompanying financial statements of the governmental activities and each major fund of Volunteer State Cooperative (VOLCO) as of and for the year ended June 30, 2012, which collectively comprise VOLCO's basic financial statements as listed in the table of contents. These financial statements are the responsibility of VOLCO's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of VOLCO as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2012, on our consideration of VOLCO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report

is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise VOLCO's basic financial statements. The other financial information listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Carl A. Davis & Company, CPAs
Hendersonville, TN
December 28, 2012

**Volunteer State Cooperative
Management's Discussion and Analysis (Unaudited)
June 30, 2012**

BACKGROUND

The Volunteer State Cooperative (VOLCO) was created in 1998 under *Tennessee Code Annotated* 49-2-1301 to establish an interlocal agency to permit local education agencies to exercise the collective authority to purchase food and non-food items for school nutrition departments at the lowest possible cost and to maximize the use of commodity entitlement dollars through combined volume commodity processing.

VOLCO Member Districts include Bedford County, Coffee County, Dickson County, Fayetteville City, Humphreys County, Manchester City, Marshall County, Maury County, Robertson County and Stewart County.

REPORTING REQUIREMENTS

VOLCO is required to apply the Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for all accounting periods beginning after June 15, 2002.

Our discussion and analysis of VOLCO's financial performance provides an overview of the organization's financial activities for the fiscal year ended June 30, 2011, and should be read in conjunction with the organization's financial statements.

DESCRIPTION OF BASIC FINANCIAL STATEMENTS

The financial statements report information about VOLCO using generally accepted accounting principles. The Statement of Net Assets/Governmental Fund Balance Sheet includes all assets and liabilities and provides information about the nature and amounts of investments and resources (assets) and obligations (liabilities). The current year's revenues and expenses are accounted for in the Statement of Activities/Statement of Revenues, Expenditures, and Changes in Net Assets. VOLCO operates with a zero balance budget. All revenues and expenses belong to Member Districts, not VOLCO.

The following condensed financial information provides an overview of VOLCO's financial activities for the year ended June 30, 2012. Total expenditures for 2012 were \$9,703 less than 2011 due to decreases primarily in rebate expense and food show expense, offset by marginal increases in Salaries, Training and Travel.

Volunteer State Cooperative
Management's Discussion and Analysis (Unaudited) - Continued
June 30, 2012

Condensed Statement of Net Assets/
Governmental Fund Balance Sheet

	<u>2011</u>	<u>2012</u>
Total Assets	\$ 7,143	\$ 7,143
Total Liabilities	7,143	7,143
Total Net Assets	-	-
Total Liabilities and Net Assets	\$ 7,143	\$ 7,143

Condensed Statement of Activities/
Statement of Revenues, Expenditures, and Changes in Net Assets

	<u>2011</u>	<u>2012</u>
Total Program Revenues	\$ 63,098	\$ 67,362
Total Expenditures/Expenses	63,098	67,362
Net Program Expense	0	0
General Revenues	0	0
Excess of Revenue Over Expenditures	-	-
Net Assets/Fund Balance Beginning	-	-
Net Assets/Fund Balance Ending	\$ -	\$ -

BUDGET VARIATIONS

The budgetary comparison schedule is shown on page 11 of the financial statements.

CONTACTING VOLCO'S FINANCIAL MANAGEMENT

This financial report is designed to provide our members with a general overview of VOLCO's finances and show VOLCO's accountability for the money it receives. If you have any questions about this report, or need additional information, contact VOLCO's office at the following address:

VOLCO Lead District
Stewart County Board of Education
PO Box 433
Dover, TN 37058
931-232-2341

Laura Crain, Cooperative Business Assistant

**Volunteer State Cooperative
Statement of Net Assets/
Governmental Fund Balance Sheet
June 30, 2012**

	Governmental Fund Type General	Fiduciary Fund Type Agency
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ -	\$ 6,276
Accounts Receivable	-	867
	<hr/>	<hr/>
Total Assets	<u>\$ -</u>	<u>\$ 7,143</u>
 <u>LIABILITIES</u>		
Due to Bedford County Schools	\$ -	\$ 715
Due to Coffee County Schools	-	715
Due to Dickson County Schools	-	715
Due to Fayetteville City Schools	-	714
Due to Humphreys County Schools	-	714
Due to Manchester City Schools	-	714
Due to Marshall County Schools	-	714
Due to Maury County Schools	-	714
Due to Robertson County Schools	-	714
Due to Stewart County Schools	-	714
	<hr/>	<hr/>
Total Liabilities	<u>-</u>	<u>7,143</u>
 <u>NET ASSETS</u>		
	<hr/>	<hr/>
Total Liabilities and Net Assets	<u>\$ -</u>	<u>\$ 7,143</u>

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

Volunteer State Cooperative
Statement of Activities/
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2012

PROGRAM REVENUES

Administrative Services	\$ 67,362
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EXPENDITURES/EXPENSES:

Operating Expenses:

Accounting	6,000
Advertising	134
Conference Meeting	95
Coordinating District	
Salary & Benefits	42,131
Food Show Expense	-
Insurance	3,430
Office Supplies	961
Phone	748
Postage	89
Support/Training	4,360
Travel Expense	9,414

Total Expenditures/Expenses	67,362
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Net Program Expense	-
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GENERAL REVENUES

Interest Income	(0)
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Excess of Revenues over Expenditures	-
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Fund Balance:

Beginning of the Year	-
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End of the Year	\$ -
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The accompanying notes are an integral part of the financial statements.

**Volunteer State Cooperative
Notes to Financial Statements
For the Year Ended June 30, 2012**

Note 1 – Summary of Significant Accounting Policies

General

The Volunteer State Cooperative was created in 1998 under Tennessee Code Annotated 49-2-1301 to establish an interlocal agency to permit local education agencies to exercise the collective authority to purchase food service-related materials, supplies, equipment and services jointly for the operation of school food service programs by combining the purchasing requirements of each local education agency and thereby enabling them to carry out this function in a more cost effective manner.

The member districts include the following governmental entities: Bedford County, Coffee County, Dickson County, Fayetteville City, Humphreys County, Manchester City, Marshall County, Maury County, Robertson County and Stewart County.

Reporting Entity

The Cooperative is established under Tennessee law which enables local governments to cooperate on the basis of mutual economic advantage. VOLCO's operations alone constitute the reporting entity since it has no oversight responsibility for any other agencies and no component units.

Basis of Accounting

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 flow.

Government fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized when 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 Cooperative considers revenues to be available if they are collectible within 60 days of the end of the current fiscal period. Expenditures are recognized when the fund liability is incurred, as under accrual accounting.

Fiduciary fund financial statements are reported using 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 flow.

Volunteer State Cooperative
Notes to Financial Statements - Continued
For the Year Ended June 30, 2012

Note 1 – Summary of Significant Accounting Policies - Continued

Fund Type

VOLCO maintains one cash account to account for both the governmental and agency funds. These funds are separated in the accompanying financial statements for presentation purposes. All expenses of the governmental fund are reimbursed by VOLCO members.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments that potentially subject VOLCO to significant concentrations of credit risk consist principally of cash. VOLCO places its cash with federally-insured financial institutions and limits the amount of credit exposure to any one institution by requiring collateral.

Cash and Cash Equivalents

VOLCO considers all highly liquid debt instruments purchased with maturities of 90 days or less to be cash equivalents.

Accounts Receivable

Accounts Receivable generally consist of manufacturer rebates due to VOLCO and payable to the member districts when received, and amounts due from member districts for expenses paid by VOLCO on their behalf.

Inventory

Ownership of all inventory is maintained by VOLCO's member districts. This includes the inventory stored at the service provider's warehouse.

Allocation of Expenditures

The operating expenditures of VOLCO are allocated equally among the member districts.

Volunteer State Cooperative
Notes to Financial Statements - Continued
For the Year Ended June 30, 2012

Note 2 – Investments and Other Deposits

Investments and other deposits are restricted by state law to deposits with financial institutions and certain obligations guaranteed by the United States Government. As required by state law, VOLCO maintains deposit accounts that are insured by the FDIC up to \$250,000 or are insured by the Tennessee State Collateral Pool or for which the financial institution has pledged securities to collateralize the deposits.

At June 30, 2012, cash included bank balances of \$6,276 all of which was insured by the FDIC.

Note 3 – Insurance

VOLCO's exposure to property loss and general liability is handled through the purchase of insurance. Insurance coverage was adequate to cover settlements for the previous three years. VOLCO participates in the Tennessee School Boards Risk Management Trust for all insurance coverage. Participants in this plan remain liable for any underfunding.

Volunteer State Cooperative
Budgetary Comparison Schedule (Unaudited)
For the Year Ended June 30, 2012

	Original And Final Budget	Actual	Actual Over (Under) Budget
<u>REVENUES</u>			
Administrative Services	\$ 61,690	\$ 67,362	\$ 5,672
 <u>EXPENDITURES</u>			
Operating Expenses:			
Accounting	6,000	6,000	-
Advertising	200	134	(66)
Conference Meeting	1,000	95	(905)
Coordinating District			-
Salary & Benefits	44,692	42,131	(2,561)
Food Show Expense	-	-	-
Insurance	3,648	3,430	(218)
Office Supplies	1,200	961	(239)
Phone	1,300	748	(552)
Postage	150	89	(61)
Support/Training	200	4,360	4,160
Travel Expense	3,300	9,414	6,114
Total Expenditures/Expenses	61,690	67,362	5,672
 <u>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</u>			
	-	-	-
 <u>OTHER INCOME</u>			
Interest Income	-	-	-
Net Assets-July 1, 2011	-	-	-
Net Assets-June 30, 2012	\$ -	\$ -	\$ -

See Independent Auditors Report

Volunteer State Cooperative
Schedule of Changes in Assets and Liabilities
Agency Fund (Unaudited)
For the Year Ended June 30, 2012

	Beginning Balance	Additions	Deductions	Ending Balance
ASSETS				
Cash and Cash Equivalents	\$ 5,814	\$ 1,300,696	\$ 1,300,234	\$ 6,276
Accounts Receivable	1,329	1,265,455	1,265,917	867
Total Assets	<u>\$ 7,143</u>	<u>\$ 2,566,151</u>	<u>\$ 2,566,151</u>	<u>\$ 7,143</u>
LIABILITIES				
Due to Bedford County Schools	\$ 715			\$ 715
Due to Coffee County Schools	715			715
Due to Dickson County Schools	715			715
Due to Fayetteville City Schools	715		1	714
Due to Humphreys County Schools	714			714
Due to Manchester City Schools	715			714
Due to Marshall County Schools	715		1	714
Due to Maury County Schools	715		1	714
Due to Robertson County Schools	715			714
Due to Stewart County Schools	714			714
Total Liabilities	<u>\$ 7,148</u>	<u>\$ -</u>	<u>\$ 3</u>	<u>\$ 7,143</u>

See Independent Auditors Report

**Volunteer State Cooperative
Schedule of the Executive Board – (Unaudited)
For the Year Ended June 30, 2012**

Bedford County School Nutrition	Janet Clarkson
Coffee County School Nutrition	Shanelle Gray
Dickson County School Nutrition	Michelle Zirnig
Fayetteville City School Nutrition	Ron Perrin
Humphreys County School Nutrition	Kathie McClanahan
Manchester City School Nutrition	Connie Morris
Marshall County School Nutrition	Larissa Delk
Maury County School Nutrition	Carol Cross
Robertson County School Nutrition	Judy Fentress
Stewart County School Nutrition	Cathy Wallace

Volunteer State Cooperative
Schedule of the Executive Committee – (Unaudited)
For the Year Ended June 30, 2012

Shanelle Gray	President
Michelle Zirnis	Vice President
Larissa Delk	Secretary
Connie Morris	Treasurer
Cathy Wallace	Coordinating Director



Independent Auditor's Report on Internal Control over Financial
Reporting and on Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
Government Auditing Standards

Executive Board
Volunteer State Cooperative
Dover, Tennessee

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Volunteer State Cooperative (VOLCO) as of and for the year ended June 30, 2012, which collectively comprise VOLCO's basic financial statements and have issued our report thereon dated December 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any further deficiencies other than those identified as material weaknesses.

The findings listed below are repeat findings that were included in previous internal control reports. Given the structure of the cooperative, it is reasonable to expect these findings to repeat in future years.

Finding 2012-01

Segregation of Duties: We noted that VOLCO has one bookkeeper who is responsible for all bookkeeping functions. This causes a lack of segregation of duties.

Recommendation: We recommend that VOLCO segregate incompatible accounting functions.

Management response: It is difficult to separate duties as VOLCO has only one employee. We have implemented two signatures on checks and request that someone other than the bookkeeper make bank deposits when possible. All VOLCO districts check financials so any discrepancies should be found.

Finding 2012-02

Management Oversight of Financial Reporting: We noted a lack of management oversight over financial reporting which includes the preparation of the financial statements and footnote disclosures in conformity with generally accepted accounting principles (GAAP).

Recommendation: We recommend that management implement review procedures to ensure that the financial statements are prepared in conformity with generally accepted accounting principles.

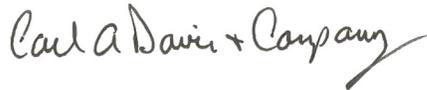
Management Response: It is cost prohibitive for VOLCO to obtain third party assistance to prepare the financial reports and footnotes in accordance with the generally accepted accounting principles prior to the independent audit.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether VOLCO'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 following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Executive Board, the VOLCO members, others within the organization, and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.



Carl A. Davis & Company, CPAs
Hendersonville, TN
December 28, 2012