Volunteer State Cooperative
Audited Financial Statements
Year Ended June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

Executive Board
Volunteer State Cooperative
Dover, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Volunteer State Cooperative (VOLCO) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise VOLCO'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 VOLCO, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof 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 3 – 5 be presented to supplement the basic financial

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise VOLCO's basic financial statements. The Budgetary Comparison Schedule, the Schedule of Changes n Assets and Liabilities – Agency Fund, Schedule of the Executive Board and the Schedule of the Executive Committee are presented for purposes of additional analysis and are not a required part of the basic financial statements.

These items of additional information have 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 28, 2013, 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 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 VOLCO's internal control over financial reporting and compliance.

Carl A. Davis & Company, CPAs
Hendersonville, TN
December 28, 2013

Volunteer State Cooperative
Management's Discussion and Analysis (Unaudited)
June 30, 2013

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 counties in Middle to Western Tennessee, as listed on the Schedule of Executive Board on page 13 of these financial statements.

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, 2013, 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 / Fiduciary 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, 2013. Total expenditures for 2013 were $4,393 more than 2012 due to increase primarily in Salary Expense, Refunds Expense and Food Show Expense, offset partially by a decrease in Training and Travel.

Condensed Statement of Net Assets/
Fiduciary Fund Balance Sheet

	2012	2013
Total Assets	$ 7,143	$ 8,571
Total Liabilities	7,143	8,571
Total Net Assets	-	-
Total Liabilities and Net Assets	$ 7,143	$ 8,571

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

	2012	2013
Total Program Revenues	$ 67,362	$ 71,755
Total Expenditures/Expenses	67,362	71,755
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/
Fiduciary Fund Balance Sheet
June 30, 2013

	Fidicuary Fund Type Agency
ASSETS	
Cash and Cash Equivalents	$ 27,859
Accounts Receivable	9,755
Total Assets	$ 37,614
LIABILITIES	
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 Hickman County Schools	714
Due to Houston County 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
Accounts Payable	29,043
Total Liabilities	37,614
NET ASSETS	-
Total Liabilities and Net Assets	$ 37,614

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, 2013

PROGRAM REVENUES	
Administrative Services	$ 71,755
EXPENDITURES/EXPENSES:	
Operating Expenses:	
Accounting	6,000
Advertising	60
Conference Meeting	175
Coordinating District	
Salary & Benefits	46,647
Food Show Expense	3,774
Insurance	3,430
Office Supplies	644
Phone	676
Postage	60
Refunds Expense	2,116
Support/Training	85
Travel Expense	8,088
Total Expenditures/Expenses	71,755
Net Program Expense	-
GENERAL REVENUES	
Interest Income	(0)
Excess of Revenues over Expenditures	-
Fund Balance/Net Assets:	
Beginning of the Year	-
End of the Year	$ -

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

Volunteer State Cooperative
Notes to Financial Statements
For the Year Ended June 30, 2013

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.

VOLCO Member Districts include counties in Middle to Western Tennessee, as listed on the Schedule of Executive Board on page 13 of these financial statements.

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.

Note 1 – Summary of Significant Accounting Policies - Continued

Fund Type
VOLCO maintains one cash account to account for both the governmental and agency funds. 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.

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, 2013, cash included bank balances of $27,859 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, 2013

	Original And Final Budget	Actual	Actual Over (Under) Budget
REVENUES			
Administrative Services	$ 66,998	$ 71,755	$ 4,757
EXPENDITURES			
Operating Expenses:			
Accounting	6,000	6,000	-
Advertising	200	60	(140)
Conference Meeting	1,000	175	(825)
Coordinating District			-
Salary & Benefits	45,000	46,647	1,647
Food Show Expense	5,000	3,774	(1,226)
Insurance	3,648	3,430	(218)
Office Supplies	1,200	644	(556)
Phone	1,300	676	(624)
Postage	150	60	(90)
Refunds Expense	-	2,116	2,116
Support/Training	200	85	(115)
Travel Expense	3,300	8,088	4,788
Total Expenditures/Expenses	66,998	71,755	4,757
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	-
OTHER INCOME			
Interest Income	-	-	-
Net Assets-July 1, 2012	-	-	-
Net Assets-June 30, 2013	$ -	$ -	$ -

See Independent Auditors Report

Volunteer State Cooperative
Schedule of Changes in Assets and Liabilities
Agency Fund (Unaudited)
For the Year Ended June 30, 2013

	Beginning Balance	Additions	Deductions	Ending Balance
ASSETS				
Cash and Cash Equivalents	$ 6,276	$ 1,439,081	$ 1,417,498	$ 27,859
Accounts Receivable	867	1,337,352	1,328,464	9,755
Total Assets	$ 7,143	$ 2,776,433	$ 2,745,962	$ 37,614
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	714			714
Due to Hickman County Schools	714			714
Due to Houston County Schools	714			714
Due to Humphreys County Schools	714			714
Due to Manchester City Schools	714			714
Due to Marshall County Schools	714			714
Due to Maury County Schools	714			714
Due to Robertson County Schools	714			714
Due to Stewart County Schools	714			714
Total Liabilities	$ 8,571	$ -	$ -	$ 8,571

See Independent Auditors Report

Volunteer State Cooperative
Schedule of the Executive Board – (Unaudited)
For the Year Ended June 30, 2013

Bedford County School Nutrition	Janet Clarkson
Coffee County School Nutrition	Shanelle Gray
Dickson County School Nutrition	Michelle Zirnis
Fayetteville City School Nutrition	Ron Perrin
Hickman County School Nutrition	Sharon Sullivan
Houston County School Nutrition	Jonna Moore
Humphreys County School Nutrition	Kathie McClanahan
Manchester City School Nutrition	Connie Morris
Marshall County School Nutrition	Larissa Delk
Maury County School Nutrition	Brian Parkhurst
Robertson County School Nutrition	Patsi Gregory
Stewart County School Nutrition	Jacqueline Wallace

Volunteer State Cooperative
Schedule of the Executive Committee – (Unaudited)
For the Year Ended June 30, 2013

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

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*

Executive Board
Volunteer State Cooperative
Dover, TN

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of Volunteer State Cooperative (VOLCO), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise VOLCO's basic financial statements and have issued our report thereon dated December 28, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered VOLCO'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 VOLCO's internal control. Accordingly, we do not express an opinion on the effectiveness of VOLCO's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying findings, we identified certain deficiencies in internal control 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 2013-01 and 2013-02 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 significant deficiencies that we did not consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether VOLCO'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*.

VOLCO's Response to Findings

VOLCO's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit VOLCO's response 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.

Carl A. Davis & Company

Carl A. Davis & Company, CPAs
Hendersonville, TN
December 28, 2013

Volunteer State Cooperative
Schedule of Findings and Management Responses
For the Year Ended June 30, 2013

Finding 2013-01

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 2013-02

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.