

**Volunteer State Cooperative
Audited Financial Statements
Year Ended June 30, 2014**

TABLE OF CONTENTS

Independent Auditor's Report	1
Management's Discussion and Analysis (Unaudited)	4
Statement of Activities/Statement of Revenues, Expenditures, and Changes in Fund Balance	7
Statement of Net Position/Fiduciary Fund Balance Sheet.....	8
Notes to Financial Statements	9
Other Financial Information:	
Budgetary Comparison Schedule (Unaudited).....	12
Schedule of Changes in Assets and Liabilities – Agency Fund (Unaudited)	13
Schedule of the Executive Board (Unaudited)	14
Schedule of the Executive Committee (Unaudited)	15
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 <i>Government Auditing Standards</i>	17
Schedule of Findings and Management Responses	18
Summary of Prior Year Findings	19



PLLC, CPAs

John R. Gillette, CPA
Don R. Henderson, CPA
Lisa E. McIntosh, CPA

www.ghccpa.com

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, 2014, 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, 2014, 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 4-6 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 in 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 May 29, 2015, 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.

Gillette, Henderson & Co, PLLC

Gillette, Henderson & Company, PLLC
Hermitage, TN 37076
May 29, 2015

**Volunteer State Cooperative
Management's Discussion and Analysis (Unaudited)
June 30, 2014**

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 Position / 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 Position. 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, 2014. Total expenditures for 2014 were \$3,559 more than 2013 due to an increase primarily in Refunds Expense and Food Show Expense, offset partially by a decrease in Salary and Related Benefits and Travel.

**Volunteer State Cooperative
Management's Discussion and Analysis (Unaudited) - Continued
June 30, 2014**

Condensed Statement of Net Position/
Fiduciary Fund Balance Sheet

	2013	2014
Total Assets	\$ 37,614	\$ 8,571
Total Liabilities	37,614	8,571
Total Net Position	-	-
Total Liabilities and Net Position	\$ 37,614	\$ 8,571

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

	2013	2014
Total Program Revenues	\$ 71,756	\$ 75,315
Total Expenditures/Expenses	71,756	75,315
Net Program Expense	-	-
General Revenues	-	-
Excess of Revenues Over Expenditures	-	-
Net Position/Fund Balance Beginning	-	-
Net Position/Fund Balance Ending	\$ -	\$ -

**Volunteer State Cooperative
Management's Discussion and Analysis (Unaudited) - Continued
June 30, 2014**

BUDGET VARIATIONS

The budgetary comparison schedule is shown on page 12 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
1800 Wilson Parkway
Fayetteville, TN
931-438-7964

Dana Moon, Cooperative Administrative Assistant

Volunteer State Cooperative
Statement of Activities/
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2014

Program Revenues	
Administrative Services	<u>\$ 75,315</u>
 Expenditures/Expenses	
Operating Expenses	
Accounting	6,000
Advertising	67
Coordinating District Salaries and Benefits	44,633
Food Show Expense	10,789
Insurance	3,430
Office Supplies	500
Phone	684
Postage	46
Refunds	3,368
Support and Training	95
Travel	5,703
Total Expenditures/Expenses	<u>75,315</u>
Net Program Expense	-
 General Revenues	
Interest Income	<u>-</u>
Excess of Revenues over Expenditures	-
Fund Balance/Net Position Beginning of Year	<u>-</u>
Fund Balance/Net Position Beginning of Year	<u><u>\$ -</u></u>

See Notes to Financial Statements

**Volunteer State Cooperative
Statement of Net Position/
Fiduciary Fund Balance
June 30, 2014**

Assets

Current Assets

Cash and Cash Equivalents	\$ 2,753
Accounts Receivable	5,818
Total Current Assets	<u>8,571</u>
 Total Assets	 <u>\$ 8,571</u>

Liabilities and Net Position

Current Liabilities

Due to Bedford County Schools	\$ 715
Due to Coffee County Schools	715
Due to Dickson County Schools	715
Due to Fayetteville County Schools	714
Due to Hickman County Schools	714
Due to Houston County Schools	714
Due to Humphreys County Schools	714
Due to Manchester County 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
Total Current Liabilities	<u>8,571</u>
 Total Liabilities	 <u>8,571</u>

Net Position

Total Liabilities and Net Position	<u>\$ 8,571</u>
------------------------------------	-----------------

See Notes to Financial Statements.

**Volunteer State Cooperative
Notes to Financial Statements
For the Year Ended June 30, 2014**

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 15 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.

Volunteer State Cooperative
Notes to Financial Statements - Continued
For the Year Ended June 30, 2014

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.

Volunteer State Cooperative
Notes to Financial Statements - Continued
For the Year Ended June 30, 2014

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, 2014, deposits with financial institutions had a bank balance of \$41,038 and a carrying value of \$2,753 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
Statement of Activities/
Budgetary Comparison Schedule (Unaudited)
For the Year Ended June 30, 2014**

	Original And Final Budget	Actual	Actual Over (Under) Budget
Revenues			
Administrative Services	\$ 72,099	\$ 75,315	\$ 3,216
Expenditures			
Operating Expenses			
Accounting	6,000	6,000	-
Advertising	200	67	133
Coordinating District Salaries and Benefits	50,444	44,633	5,811
Food Show Expense	-	10,789	(10,789)
Insurance	3,430	3,430	-
Office Supplies	800	500	300
Phone	900	684	216
Postage	125	46	79
Refunds	1,000	3,368	(2,368)
Support and Training	100	95	5
Travel	8,100	5,703	2,397
Total Expenditures/Expenses	<u>72,099</u>	<u>75,315</u>	<u>(3,216)</u>
Net Program Expense	-	-	-
Other Income			
Interest Income	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues over Expenditures	-	-	-
Net Position Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>
Net Position Beginning of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Independent Auditor's Report

Volunteer State Cooperative
Schedule of Changes in Assets and Liabilities
Agency Fund (Unaudited)
For the Year Ended June 30, 2014

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Assets				
Cash and Cash Equivalents	\$ 27,859	1,305,985	1,331,091	2,753
Accounts Receivable	9,755	1,222,453	1,226,390	5,818
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 37,614</u>	<u>\$ 2,528,438</u>	<u>\$ 2,557,481</u>	<u>\$ 8,571</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	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
Accounts Payable	29,043	1,222,354	1,251,397	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>\$ 37,614</u>	<u>\$ 1,222,354</u>	<u>\$ 1,251,397</u>	<u>\$ 8,571</u>

See Independent Auditor's Report

**Volunteer State Cooperative
Schedule of the Executive Committee – (Unaudited)
For the Year Ended June 30, 2014**

Kathie McClanahan	President
Michelle Zirniss	Vice President
Dana Moon	Secretary
Connie Morris	Treasurer
Jacqueline Wallace	Coordinating Director

**Volunteer State Cooperative
Schedule of the Executive Board – (Unaudited)
For the Year Ended June 30, 2014**

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



PLLC, CPAs

John R Gillette, CPA
Don R. Henderson, CPA
Lisa E. McIntosh, CPA

www.ghccpa.com

**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, 2014, and the related notes to the financial statements, which collectively comprise VOLCO's basic financial statements and have issued our report thereon dated May 29, 2015.

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.

Gillette, Henderson & Co., PLLC

Gillette, Henderson & Company, PLLC
Hermitage, TN
May 29, 2015

**Volunteer State Cooperative
Schedule of Findings and Management Responses
For the Year Ended June 30, 2014**

Finding 2013-001

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. One suggestion would be to have someone other than the administrative assistant open the mail and list the deposits. After the administrative assistant makes up the deposit, this could be reconciled to the listing. Another recommendation would be to have the treasurer review bank statements and reconciliations each month.

Management response: It is difficult to separate duties as VOLCO has only one employee. We have implemented two signatures on checks and have someone other than the administrative assistant makes bank deposits. All VOLCO districts check financials so any discrepancies should be found. The board will consider the feasibility of implementing the additional recommendations.

Finding 2013-002

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.

**Volunteer State Cooperative
Summary of Prior Year Findings
For the Year Ended June 30, 2014**

Finding 2013-001

Repeat finding.

Finding 2013-002

Repeat finding.