

**CHATTANOOGA AREA FOOD BANK, INC.**

**ANNUAL FINANCIAL REPORT**

**YEAR ENDED JUNE 30, 2013**

**JOHNSON, MURPHEY & WRIGHT, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**CHATTANOOGA, TENNESSEE**

## **I. INTRODUCTORY SECTION**

**CHATTANOOGA AREA FOOD BANK, INC.**  
**Table of Contents**  
**June 30, 2013**

		Page
<b>I.</b>	<b>INTRODUCTORY SECTION</b>	
	Table of Contents	i
<b>II.</b>	<b>FINANCIAL SECTION</b>	
	Independent Auditor's Report	1-2
	Financial Statements	
	Statement of Financial Position	3
	Statement of Activities	4
	Statement of Cash Flows	5
	Statement of Functional Expenses	6
	Notes to Financial Statements	7-12
	Supplementary Information	
	Schedule of Expenditures of Federal and State Awards	13
	Notes to the Schedule of Expenditures of Federal and State Awards	14
	Schedule of Activities - Temporarily Restricted	15
<b>III.</b>	<b>SINGLE AUDIT SECTION</b>	
	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>	16-17
	Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133	18-19
	Schedule of Findings and Questioned Costs	20-21
	Schedule of Prior Audit Findings	22

## **II. FINANCIAL SECTION**



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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Chattanooga Area Food Bank, Inc.

### Report on the Financial Statements

We have audited the accompanying financial statements of Chattanooga Area Food Bank, Inc. (a non-profit entity) which comprise the Statement of Financial Position as of June 30, 2013, and the related Statements of Activities, Functional Expenses and Cash Flows for the year then ended, and the related notes to the financial statements.

### 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 an opinion 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 opinion.

To the Board of Directors of  
Chattanooga Area Food Bank, Inc.  
Page Two

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chattanooga Area Food Bank, Inc. as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal and State Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. The Supplementary Information and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such 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 to 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2013, on our consideration of Chattanooga Area Food Bank, Inc.'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 Chattanooga Area Food Bank, Inc.'s internal control over financial reporting and compliance.

Chattanooga, Tennessee  
August 30, 2013

*Johnson, Murpley & Wright, P.C.*

**CHATTANOOGA AREA FOOD BANK, INC.**  
**Statement of Financial Position**  
**June 30, 2013**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>ASSETS</b>			
Cash	\$ 844,634	\$ -	\$ 844,634
Inventory - undistributed food	-	2,154,195	2,154,195
Accounts receivable - net	20,533	-	20,533
Grants receivable	33,960	-	33,960
Prepaid expenses	3,951	-	3,951
Land, building and equipment	3,649,365	-	3,649,365
Less: accumulated depreciation	(941,768)	-	(941,768)
<b>TOTAL ASSETS</b>	<b>\$ 3,610,675</b>	<b>\$ 2,154,195</b>	<b>\$ 5,764,870</b>
 <b>LIABILITIES AND NET ASSETS</b>			
<b>Liabilities</b>			
Accounts payable	\$ 65,031	\$ -	\$ 65,031
Accrued liabilities	84,131	-	84,131
Note payable	504,583	-	504,583
Total liabilities	653,745	-	653,745
 <b>Net Assets</b>			
Unrestricted	2,956,930	-	2,956,930
Temporarily restricted	-	2,154,195	2,154,195
Total net assets	2,956,930	2,154,195	5,111,125
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 3,610,675</b>	<b>\$ 2,154,195</b>	<b>\$ 5,764,870</b>

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

**CHATTANOOGA AREA FOOD BANK, INC.**  
**Statement of Activities**  
**Year Ended June 30, 2013**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>SUPPORT AND REVENUE</b>			
Support			
Donations of food	\$ -	\$ 16,963,214	\$ 16,963,214
Contributions	635,251	-	635,251
Fund-raising	974,856	-	974,856
Grants - foundations and corporations	463,500	-	463,500
Grants - federal	18,568	-	18,568
Grants - state	31,600	-	31,600
Total support	2,123,775	16,963,214	19,086,989
Revenue			
Shared maintenance fees	1,050,350	-	1,050,350
Commodity service revenue - USDA	56,199	-	56,199
Commodity service revenue - other	19,357	-	19,357
Agency fees	10,620	-	10,620
Freight revenue	4,056	-	4,056
Investment income	1,340	-	1,340
Miscellaneous income	551	-	551
Total revenue	1,142,473	-	1,142,473
Net assets released from restrictions	16,021,711	(16,021,711)	-
Total support and revenue	19,287,959	941,503	20,229,462
<b>EXPENSES</b>			
Program services			
Food distribution services	18,162,256	-	18,162,256
Supporting services			
Management and general	159,346	-	159,346
Fund-raising	224,733	-	224,733
Total supporting services	384,079	-	384,079
Total expenses	18,546,335	-	18,546,335
Change in net assets	741,624	941,503	1,683,127
<b>Net Assets - beginning</b>	2,215,306	1,212,692	3,427,998
<b>Net Assets - end</b>	\$ 2,956,930	\$ 2,154,195	\$ 5,111,125

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



**CHATTANOOGA AREA FOOD BANK, INC.**  
**Statement of Cash Flows**  
**Year Ended June 30, 2013**

**Cash Flows from Operating Activities**

Increase (decrease) in net assets	<u>\$ 1,683,127</u>
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities	
Depreciation	121,465
(Increase) decrease in accounts receivable - net	36,709
(Increase) decrease in grants receivable	(20,910)
(Increase) decrease in prepaid assets	(3,951)
(Increase) decrease in inventories	(941,503)
Increase (decrease) in accounts payable	(53,239)
Increase (decrease) in accrued liabilities	<u>(78,196)</u>
Total adjustments	<u>(939,625)</u>
Net cash provided (used) by operating activities	<u>743,502</u>

**Cash Flows from Investing Activities**

Acquisition and construction of capital assets	(28,286)
Net sale (purchase) of investments	<u>85,325</u>
Net cash provided (used) by investing activities	<u>57,039</u>

**Cash Flows From Financing Activities**

Repayment of long-term debt	<u>(137,633)</u>
Net cash provided (used) by financing activities	<u>(137,633)</u>

Net increase (decrease) in cash	662,908
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<b>Cash - beginning</b>	<u>181,726</u>
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<b>Cash - end</b>	<u>\$ 844,634</u>
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Supplemental Disclosure

Interest paid	<u>\$ 32,796</u>
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The accompanying notes are an integral part of the financial statements.

**CHATTANOOGA AREA FOOD BANK, INC.**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2013**

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total Expenses</u>
	<u>Food Distribution</u>	<u>Management and General</u>	<u>Fund-raising</u>	
Cost of food distribution	\$ 16,488,383	\$ -	\$ -	\$ 16,488,383
Freight and packaging	99,153	-	-	99,153
Salaries	690,536	81,239	40,620	812,395
Employee benefit	59,870	7,043	3,522	70,435
Payroll taxes	51,774	6,091	3,046	60,911
Special events	-	-	22,337	22,337
Warehouse supplies and expenses	61,515	-	-	61,515
Vehicle expense	53,244	-	-	53,244
Utilities	70,424	-	-	70,424
Office supplies	2,816	939	-	3,755
Advertising	1,455	-	-	1,455
Printing and postage	15,871	5,290	-	21,161
Telephone	13,538	-	-	13,538
Rental expenses	17,940	5,980	-	23,920
Repairs and maintenance	5,387	-	-	5,387
Miscellaneous	15,531	-	-	15,531
Bad debt	10,041	-	-	10,041
Contracted services	21,682	-	-	21,682
Professional services	-	52,764	-	52,764
Dues and subscriptions	11,311	-	-	11,311
Education and training	4,106	-	-	4,106
Volunteer expenses	2,895	-	-	2,895
Fund-raising	-	-	155,208	155,208
Programs	236,065	-	-	236,065
Travel and lodging	24,121	-	-	24,121
Insurance	50,337	-	-	50,337
Interest expense	32,796	-	-	32,796
Total expenses before depreciation	18,040,791	159,346	224,733	18,424,870
Depreciation	121,465	-	-	121,465
Total expenses	<u>\$ 18,162,256</u>	<u>\$ 159,346</u>	<u>\$ 224,733</u>	<u>\$ 18,546,335</u>

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

**CHATTANOOGA AREA FOOD BANK, INC.**  
**Notes to Financial Statements**  
**June 30, 2013**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Chattanooga Area Food Bank, Inc. have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

**A. Nature of Activities**

Chattanooga Area Food Bank, Inc. operates as a non-profit entity located in Chattanooga, Tennessee. The Entity receives donations of food which it distributes to other tax-exempt organizations in the tri-state area.

**B. Basis of Presentation - Net Asset Accounting**

The Chattanooga Area Food Bank, Inc. follows the recommendations of the Financial Accounting Standards Board (FASB) ASC 958-205-05-6. Under FASB ASC 958-205-05-6, the Chattanooga Area Food Bank, Inc. is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, Chattanooga Area Food Bank, Inc. is required to present a Statement of Cash Flows. As of June 30, 2013, the Entity had only unrestricted and temporarily restricted net assets.

**C. Basis of Accounting**

The financial statements are prepared on the accrual basis of accounting and in accordance with the AICPA Audit and Accounting Guide, *Not-for-Profit Organization*, and Financial Accounting Standards Board (FASB) ASC 958-205-05-6. Under the accrual basis, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. The financial statements reflect all significant receivables, payables and other liabilities. The reserve method is used to estimate the allowance for bad debts and uncollectible pledges.

**D. Restricted and Unrestricted Support and Revenue**

The Entity follows the recommendations of the Financial Accounting Standards Board (FASB) ASC 958-605-25. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Revenue is considered to be available for unrestricted use unless specifically restricted by the donor or grantor.

The Entity reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. The Entity chooses to show contributions whose restrictions are met in the same reporting period as unrestricted support.

Temporarily restricted assets consist of the donated food received for distribution to other tax-exempt organizations. The increase or decrease in the donated food portion of the temporary restricted net assets only reflects the increase or decrease in the inventory values from the beginning of the year to the end of the year.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### E. Donated Property and Other Non-cash Items Other than Food

The Entity reports gifts of property and other non-cash items other than food as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Entity reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

### F. Valuation of Donated Services

The Entity depends upon the services donated by volunteers to carry out many of its internal operations. However, the services donated do not meet the current reporting requirements under FASB ASC 958-605-25-16, which would require recognition of their value in the financial statements.

### G. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Entity considers all unrestricted highly liquid investments purchased with a maturity date of three months or less to be cash equivalents.

### H. Investments

Investments are stated at fair value, determined based on quoted market prices or estimated values provided by external investment managers or other sources. Any gains or losses, realized or unrealized, are included in the change of net assets in the Statement of Activities. Donated investments are reflected as contributions at their market value at date of receipt. The Entity chooses to show restricted gains and investment income whose restrictions are met in the same reporting period as unrestricted support.

### I. Fair Value Measurement

The Entity adopted the provisions of ASC 820-10-50 applicable to financial assets and liabilities, as well as for other non-financial assets and liabilities that are carried at fair value on a recurring basis. Adoption of the provisions of ASC 820-10-50 did not have an impact on the measurement of the Entity's financial assets and liabilities.

### J. Inventories

Donated food is valued at an average wholesale market price, as determined by the national affiliate.

### K. Land, Building and Equipment

Property and equipment are stated at cost if purchased or fair value if contributed. All expenses for land, buildings and equipment in excess of \$500 are capitalized. Minor repairs and maintenance are expensed as incurred and additions and improvements that significantly extend the life of assets are depreciated over the remaining useful lives of the related fixed asset. At the time that assets are retired or disposed of, cost and accumulated depreciation are eliminated from the related accounts and gain or loss, if any, is credited or charged to income. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets as follows:

Building	40 years
Vehicles	5 years
Office furniture and fixtures	5 - 10 years
Greenhouse	6 - 15 years
Warehouse equipment	5 - 15 years

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### L. Pledges Receivable

Unconditional promises to give, in accordance with FASB ASC 958-310-25, are recognized as revenues or gains in the period the pledge is received. They remain pledges receivable until collected or determined to be uncollectible. Conditional promises to give are recognized when the conditions on which they depend are substantially met. At June 30, 2013, the Entity had no pledges receivable.

### M. Compensated Absences

Unused vacation and sick leave that have been approved for accrual are recorded as a liability at the end of each year.

### N. Revenue Recognition

Revenue is considered to be available for unrestricted use unless its use is temporarily or permanently restricted by the donor or grantor in accordance with FASB ASC 958-605-25.

### O. Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expense. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

### P. Prepayment of Expenses

Expenses extending over more than one accounting period, such as advertising, are not allocated between accounting periods but accounted for as expenses of the period paid.

### Q. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### R. Income Taxes

Chattanooga Area Food Bank, Inc. is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from Federal income taxes on related income pursuant to Section 501 of the Code. The Entity accounts for the effect of any uncertain tax positions based on a more likely than not threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefits are estimated based on the cumulative probability assessment that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for the Entity include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax; however, the Entity has determined that such tax positions do not result in an uncertainty requiring recognition.

### S. Events Occurring after Reporting Date

The Entity has evaluated events and transactions that occurred between June 30, 2013, and August 30, 2013, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

## NOTE 2 - CASH AND CASH CREDIT RISK

At year-end, the carrying amount of the Entity's deposits was \$844,634. The financial institution balance for deposits was \$853,340. FDIC insures bank balances up to \$250,000 leaving \$3,329 at risk.

The carrying amount of the Entity's deposits is classified as follows on the Statement of Financial Position:

Cash	\$ 844,634
Less - petty cash	( 86)
Less - deposits	( 500)
Less - paypal account	<u>( 120)</u>
Total	<u>\$ 843,928</u>

## NOTE 3 - INVENTORY - UNDISTRIBUTED FOOD

The Entity values donated food at an average wholesale market price per pound of \$1.69 for June 30, 2013, and \$1.66 for June 30, 2012, as provided by the Entity's national affiliate. The inventory of undistributed food on hand consists of the following:

<u>Date</u>	<u>Pounds</u>	<u>Price</u>	<u>Amount</u>
June 30, 2013	<u>1,274,672</u>	<u>\$1.69</u>	<u>\$2,154,195</u>
June 30, 2012	<u>730,537</u>	<u>\$1.66</u>	<u>\$1,212,692</u>

## NOTE 4 - ACCOUNTS RECEIVABLE - NET

Accounts receivable at June 30, 2013, consists of the following:

Member agencies	\$ 34,339
Allowance for bad debt	<u>( 13,806)</u>
Accounts receivable - net	<u>\$ 20,533</u>

Bad debt expense for the year ended June 30, 2013, was \$10,041.

## NOTE 5 - GRANTS RECEIVABLE

Grants receivable at June 30, 2013, consist of the following:

State of Tennessee Department of Agriculture	<u>\$33,960</u>
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## NOTE 6 - LAND, BUILDING AND EQUIPMENT

Activity for the year ended June 30, 2013, consists of the following:

	Balance 6-30-2012	Additions	Deletions	Balance 6-30-2013
Land and land improvements	\$ 399,245	\$ 1,867	\$ -	\$ 401,112
Building	2,614,068	18,643	-	2,632,711
Vehicles	305,926	-	-	305,926
Office furniture and fixtures	84,804	1,972	-	86,776
Greenhouse	26,741	-	-	26,741
Warehouse equipment	190,295	5,804	-	196,099
	3,621,079	28,286	-	3,649,365
Accumulated depreciation	( 820,303)	(121,465)	-	( 941,768)
Land, building and equipment - net	<u>\$ 2,800,776</u>	<u>\$ ( 93,179)</u>	<u>\$ -</u>	<u>\$ 2,707,597</u>

Depreciation expense was \$121,465 for the year ended June 30, 2013.

## NOTE 7 - ACCRUED LIABILITIES

Accrued liabilities at June 30, 2013, consist of the following:

Accrued vacation and sick leave	\$ 60,489
Accrued payroll	<u>23,642</u>
Total	<u>\$ 84,131</u>

## NOTE 8 - NOTE PAYABLE

The Entity has a note payable to First Tennessee Bank at 4.91% interest, with a 7 year balloon payment. The original loan amount was \$815,000. The balance remaining at June 30, 2013, was \$504,583. Future debt requirements are as follows:

Year Ending June 30,	Principal	Interest	Total Payments
2014	\$ 28,054	\$ 36,729	\$ 64,783
2015	29,486	35,297	64,783
2016	30,898	33,885	64,783
2017	32,568	32,215	64,783
2018	<u>383,577</u>	<u>7,863</u>	<u>391,440</u>
Total	<u>\$ 504,583</u>	<u>\$ 145,989</u>	<u>\$ 650,572</u>

Interest expense was \$32,796 for the year ended June 30, 2013.

**NOTE 9 - TEMPORARILY RESTRICTED ASSETS**

Temporarily restricted assets consist of the following:

Undistributed food inventory	<u>\$2,154,195</u>
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**NOTE 10 - COMMERCIAL INSURANCE**

It is the policy of the Entity to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, worker’s compensation, and employee health and accident. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

**NOTE 11 - PENSION PLAN**

The Entity has a defined contribution pension plan called the Chattanooga Area Food Bank 401(k) Plan.

The participants of the plan must be 21 years of age and have attained one year of service. The Entity matches contributions by eligible employees up to 3%. Eligible employees may contribute more than the 3% that is matched by the Entity. Plan participants are 100% vested at all times. The Entity’s cost of pension benefits was \$10,841 for the year ended June 30, 2013.

**NOTE 12 - FEDERAL GRANT REVENUE**

The Chattanooga Area Food Bank, Inc. reports grant revenue from the United States Department of Agriculture for USDA Commodities. The revenue from the food received included \$770,642 passed through the Tennessee Department of Agriculture. The Chattanooga Area Food Bank, Inc. had \$162,800 of USDA Commodities on hand at June 30, 2013. The Chattanooga Area Food Bank, Inc. had grant revenue from the U.S. Department of Agriculture passed through the State of Tennessee Department of Agriculture totaling \$56,199 and recorded on the books as part of the commodity service revenue. The Entity also had \$18,568 of Federal Emergency Management Act grant revenue.

**NOTE 13 - COMPLIANCE WITH FINANCE RELATED LEGAL AND CONTRACTUAL PROVISIONS**

The Entity has no material violations of finance related legal and contractual provisions.



**SUPPLEMENTARY INFORMATION**

**CHATTANOOGA AREA FOOD BANK, INC.**  
**Schedule of Expenditures of Federal and State Awards**  
**Year Ended June 30, 2013**

Assistance Programs as Identified in the Catalog of Federal Domestic Assistance

<b>Federal Grantor/Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Award Number</b>	<b>(Accrued) Deferred Grant Revenues July 1, 2012</b>	<b>Assistance/ Grant Revenues Received</b>	<b>Expenditures</b>	<b>(Accrued) Deferred Grant Revenues June 30, 2013</b>
<b>Federal</b>						
U.S. Department of Agriculture	10.569	GR-20802	\$ 45,198	\$ 770,642	\$ 653,040	\$ 162,800
State of Tennessee Department of Agriculture						
State of Tennessee Department of Agriculture 7/1/12-9/30/12	10.568	GR-20802 (Administrative Cost)	(13,050)	15,472	2,422	-
State of Tennessee Department of Agriculture 10/1/12-6/30/13	10.568	GR-17156 (Administrative Cost)	-	19,817	53,777	(33,960)
Federal Emergency Management Act- Emergency Food Shelter Program	97.024	30-7818-00-003	-	18,568	18,568	-
Total federal awards			32,148	824,499	727,807	128,840
State of Tennessee			-	31,600	31,600	-
<b>TOTAL FEDERAL AND STATE AWARDS</b>			<b>\$ 32,148</b>	<b>\$ 856,099</b>	<b>\$ 759,407</b>	<b>\$ 128,840</b>

**CHATTANOOGA AREA FOOD BANK, INC.**  
**Notes to the Schedule of Expenditures of Federal and State Awards**  
**For the Year Ended June 30, 2013**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal and State Awards includes the federal and state grant activity of Chattanooga Area Food Bank, Inc. and is presented on the accrual basis.

**NOTE 2 - VALUE OF COMMODITIES**

The amounts listed on the first line of the schedule consist of the value of USDA Commodities received and distributed during the fiscal year. Amounts shown as deferred at the beginning and end of the year represent the value of USDA inventory on hand.

The amounts listed on the second and third lines of the schedule represents cash received, expenditures and amounts due as of June 30, 2013.

**CHATTANOOGA AREA FOOD BANK, INC.**  
**Schedule of Activities - Temporarily Restricted**  
**Year Ended June 30, 2013**

	<b>Donated Food</b>
<b>SUPPORT AND REVENUE</b>	
Donations of food	\$ 16,963,214
Total support and revenue	16,963,214
 <b>EXPENSES</b>	
Program services	
Food distribution services	16,021,711
Total expenses	16,021,711
Increase (decrease) in net assets	941,503
 <b>Net Assets - beginning</b>	 1,212,692
 <b>Net Assets - end</b>	 \$ 2,154,195

### **III. SINGLE AUDIT SECTION**



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**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**

To the Board of Directors of  
Chattanooga Area Food Bank, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Chattanooga Area Food Bank, Inc. (a non-profit entity), which comprise the Statement of Financial Position as of June 30, 2013, and the related Statements of Activities, Functional Expenses and Cash Flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 30, 2013.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Chattanooga Area Food Bank, Inc.'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Chattanooga Area Food Bank, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Entity'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 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. *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.

To the Board of Directors of  
Chattanooga Area Food Bank, Inc.  
Page Two

Our consideration of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as 13-1 that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Chattanooga Area Food Bank, Inc.'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*.

### **Chattanooga Area Food Bank, Inc.'s Response to Findings**

The Chattanooga Area Food Bank, Inc.'s response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Chattanooga Area Food Bank, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements 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.

*Johnson, Murphey & Wright, P.C.*

Chattanooga, Tennessee  
August 30, 2013



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY OMB CIRCULAR A-133**

To the Board of Directors of  
Chattanooga Area Food Bank, Inc.

**Report on Compliance for Each Major Federal Program**

We have audited Chattanooga Area Food Bank, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Chattanooga Area Food Bank, Inc.'s major federal programs for the year ended June 30, 2013. Chattanooga Area Food Bank, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Chattanooga Area Food Bank, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Chattanooga Area Food Bank, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Chattanooga Area Food Bank, Inc.'s compliance.



To the Board of Directors of  
Chattanooga Area Food Bank, Inc.  
Page Two

### **Opinion on Each Major Federal Program**

In our opinion, Chattanooga Area Food Bank, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

### **Report on Internal Control over Compliance**

Management of Chattanooga Area Food Bank, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Chattanooga Area Food Bank, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Chattanooga Area Food Bank, Inc.'s internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Chattanooga, Tennessee  
August 30, 2013

*Johnson, Murphey & Wright, P.C.*

**CHATTANOOGA AREA FOOD BANK, INC.**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2013**

**SUMMARY OF AUDIT RESULTS**

**Opinion on Financial Statements:**

Unqualified opinion issued on the financial statements in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States of America.

**Internal Control Deficiencies:**

During the audit of the financial statements one significant deficiency in internal controls was disclosed; however, it was not considered to be a material weakness.

**Material Noncompliance:**

None disclosed.

**Internal Control Deficiencies over Major Programs:**

None disclosed.

**Opinion on Compliance for Major Programs:**

Unqualified opinion.

**Findings Disclosed under OMB Circular A-133 Section .510(a):**

None disclosed.

**Major Programs:**

U.S. Department of Agriculture 10.569

**Dollar Threshold Level between Type A and Type B Programs:**

\$300,000

**Low-Risk Auditee under OMB Circular A-133 Section .530:**

No

**CHATTANOOGA AREA FOOD BANK, INC.**  
**Schedule of Findings and Questioned Costs (Continued)**  
**June 30, 2013**

**FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS**

**INTERNAL CONTROL:**

**Finding 13-1 - Internal control over assets (repeat 12-2)**

**Criteria:**

Government Auditing Standards Chapter A.06(h) states that, "inadequate controls for the safeguarding of assets..." is a control deficiency.

**Condition Found:**

Not all invoices were approved for payment before the check was written. Not all credit card statements and purchase orders were approved for payment before the check was written.

**Recommendation:**

It is the Entity's policy to mark all invoices, credit card statements, and purchase orders as approved. This policy should be followed.

**Management's Response:**

We concur. We will take steps to correct the above conditions.

**FINDINGS AND RESPONSES RELATED TO FEDERAL AWARDS**

None disclosed.

**CHATTANOOGA AREA FOOD BANK, INC.**  
**Schedule of Prior Audit Findings**  
**June 30, 2013**

**INTERNAL CONTROLS**

**Finding 12-1 - Accounting expertise**

Corrected.

**Finding 12-2 - Internal control over assets**

Still in effect.