

CHATTANOOGA AREA FOOD BANK, INC.

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2012

I. INTRODUCTORY SECTION

CHATTANOOGA AREA FOOD BANK, INC.
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June 30, 2012

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II. FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Chattanooga Area Food Bank, Inc.
Chattanooga, Tennessee

We have audited the accompanying Statement of Financial Position of Chattanooga Area Food Bank, Inc. (a non-profit entity) as of June 30, 2012, and the related Statements of Activities, Cash Flows and Functional Expenses for the year then ended. These financial statements are the responsibility of Chattanooga Area Food Bank, Inc.'s management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the changes in its net assets, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2012, on our consideration of Chattanooga Area Food Bank, Inc.'s internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Directors
Chattanooga Area Food Bank, Inc.
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Our audit was performed for the purpose of forming an opinion on the basic financial statements of Chattanooga Area Food Bank, Inc. taken as a whole. The accompanying financial information listed as Supplemental Information in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements of Chattanooga Area Food Bank, Inc. Such supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Chattanooga, Tennessee
December 10, 2012

Johnson, Murphy & Wright, P.C.

CHATTANOOGA AREA FOOD BANK, INC.
Statement of Financial Position
June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
ASSETS			
Cash	\$ 181,726	\$ -	\$ 181,726
Investments	85,325	-	85,325
Inventory - undistributed food	-	1,212,692	1,212,692
Accounts receivable - net	57,242	-	57,242
Grants receivable	13,050	-	13,050
Land, building and equipment	3,621,079	-	3,621,079
Less: accumulated depreciation	<u>(820,303)</u>	<u>-</u>	<u>(820,303)</u>
TOTAL ASSETS	<u>\$ 3,138,119</u>	<u>\$ 1,212,692</u>	<u>\$ 4,350,811</u>
 LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable	\$ 118,270	\$ -	\$ 118,270
Accrued liabilities	162,327	-	162,327
Note payable	<u>642,216</u>	<u>-</u>	<u>642,216</u>
Total liabilities	<u>922,813</u>	<u>-</u>	<u>922,813</u>
 Net Assets			
Unrestricted	2,215,306	-	2,215,306
Temporarily restricted	<u>-</u>	<u>1,212,692</u>	<u>1,212,692</u>
Total net assets	<u>2,215,306</u>	<u>1,212,692</u>	<u>3,427,998</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,138,119</u>	<u>\$ 1,212,692</u>	<u>\$ 4,350,811</u>

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

CHATTANOOGA AREA FOOD BANK, INC.

**Statement of Activities
Year Ended June 30, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Support			
Donations of food	\$ -	\$ 16,178,926	\$ 16,178,926
Contributions	483,807	-	483,807
Fund-raising	697,357	-	697,357
Grants - foundations and corporations	97,484	-	97,484
Total support	<u>1,278,648</u>	<u>16,178,926</u>	<u>17,457,574</u>
Revenue			
Shared maintenance fees	882,425	-	882,425
Commodity service revenue - USDA	72,682	-	72,682
Commodity service revenue - other	5,683	-	5,683
Agency fees	11,550	-	11,550
Investment income	1,985	-	1,985
Miscellaneous income	4,132	-	4,132
Total revenue	<u>978,457</u>	<u>-</u>	<u>978,457</u>
Net assets released from restrictions	<u>16,356,765</u>	<u>(16,356,765)</u>	<u>-</u>
Total support and revenue	<u>18,613,870</u>	<u>(177,839)</u>	<u>18,436,031</u>
EXPENSES			
Program services			
Food distribution services	<u>18,329,402</u>	<u>-</u>	<u>18,329,402</u>
Supporting services			
Management and general	132,803	-	132,803
Fund-raising	260,186	-	260,186
Total supporting services	<u>392,989</u>	<u>-</u>	<u>392,989</u>
Total expenses	<u>18,722,391</u>	<u>-</u>	<u>18,722,391</u>
Increase (decrease) in net assets	(108,521)	(177,839)	(286,360)
Net Assets - beginning	<u>2,323,827</u>	<u>1,390,531</u>	<u>3,714,358</u>
Net Assets - end	<u>\$ 2,215,306</u>	<u>\$ 1,212,692</u>	<u>\$ 3,427,998</u>

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

CHATTANOOGA AREA FOOD BANK, INC.
Statement of Cash Flows
Year Ended June 30, 2012

Cash Flows from Operating Activities	
Increase (decrease) in net assets	\$ <u>(286,360)</u>
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities	
Depreciation	119,572
(Increase) decrease in accounts receivable - net	4,265
(Increase) decrease in grants receivable	(13,050)
(Increase) decrease in inventories	177,839
Increase (decrease) in accounts payable	66,963
Increase (decrease) in accrued liabilities	<u>(39,882)</u>
Total adjustments	<u>315,707</u>
Net cash provided (used) by operating activities	<u>29,347</u>
Cash Flows from Investing Activities	
Acquisition and construction of capital assets	(139,581)
Net sale (purchase) of investments	<u>(823)</u>
Net cash provided (used) by investing activities	<u>(140,404)</u>
Cash Flows From Financing Activities	
Repayment of long-term debt	<u>(73,082)</u>
Net cash provided (used) by financing activities	<u>(73,082)</u>
Net increase (decrease) in cash	(184,139)
Cash - beginning	<u>365,865</u>
Cash - end	<u>\$ 181,726</u>
Supplemental Disclosure	
Interest paid	<u>\$ 34,688</u>

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

CHATTANOOGA AREA FOOD BANK, INC.
Statement of Functional Expenses
Year Ended June 30, 2012

	<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	\$ 16,789,357	\$ -	\$ -	\$ 16,789,357
Freight and packaging	131,253	-	-	131,253
Salaries	623,719	73,379	36,690	733,788
Employee benefit	87,335	10,275	5,137	102,747
Payroll taxes	59,092	6,952	3,476	69,520
Special events	-	-	37,172	37,172
Warehouse supplies and expenses	72,645	-	-	72,645
Vehicle expense	54,111	-	-	54,111
Utilities	63,667	-	-	63,667
Office supplies	16,489	5,497	-	21,986
Advertising	2,208	-	-	2,208
Printing and postage	16,363	5,454	-	21,817
Telephone	10,527	-	-	10,527
Rental expenses	17,311	5,770	-	23,081
Repairs and maintenance	7,152	-	-	7,152
Miscellaneous	1,311	-	-	1,311
Professional services	-	25,476	-	25,476
Dues and subscriptions	11,455	-	-	11,455
Education and training	4,908	-	-	4,908
Volunteer expenses	5,788	-	-	5,788
Fund-raising	-	-	177,711	177,711
Programs	124,898	-	-	124,898
Travel and lodging	25,029	-	-	25,029
Insurance	50,524	-	-	50,524
Interest expense	34,688	-	-	34,688
Total expenses before depreciation	18,209,830	132,803	260,186	18,602,819
Depreciation	119,572	-	-	119,572
Total expenses	\$ 18,329,402	\$ 132,803	\$ 260,186	\$ 18,722,391

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

CHATTANOOGA AREA FOOD BANK, INC.
Notes to Financial Statements
June 30, 2012

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, 2012, 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 Chattanooga Area Food Bank, Inc. follows the recommendations of 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. Contributions received without donor restriction are considered as unrestricted support.

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. Support that is restricted by the donor and the restriction expires in the same reporting period in which the support is recognized is reported as an increase in unrestricted assets. When a 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.

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. Valuation of Donated Property, Marketable Securities and Other Non-Cash Items Other than Food

Donated property, marketable securities and other non-cash donations other than food are valued as contributions at their estimated fair value at the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Entity reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Entity reclassifies temporarily restricted net assets to unrestricted net assets at that time.

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 reporting cash flows, cash includes cash and cash equivalents. The Entity considers all unrestricted highly liquid investments with an initial maturity date of three months or less to be cash equivalents. At June 30, 2012, the Entity had no cash equivalents.

H. Investments

Investments consist of certificates-of-deposit with readily determinable fair value and are valued at the fair value determined at the date of the Statement of Financial Position. Donated investments are reflected as contributions at their fair values at date of receipt. Unrealized and realized gains and losses are included in the change in net assets in the accompanying Statement of Activities as investment income.

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 but did result in additional disclosures contained in the footnotes herein.

J. Inventories

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Land, Building and Equipment

Property and equipment are stated at cost. 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

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, 2012, the Entity had no pledges receivable.

M. Compensated Absences

Permanent full-time employees may earn 5-20 vacation days annually depending on the date hired and length of service. Vacation and sick leave is non-cumulative without written approval of the president. Permanent full-time employees earn four hours of cumulative sick leave each month. The maximum rollover of sick leave is 20 days. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Income Tax Status

The Entity has tax-exempt status under section 501(c)(3) of the Internal Revenue Code. Accordingly, there is no provision for federal income tax and tax-related items.

S. Events Occurring after Reporting Date

The Entity has evaluated events and transactions that occurred between June 30, 2012, and December 10, 2012, 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 \$181,526. The financial institution balance for deposits was \$235,584. The Entity had no uninsured cash balances.

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

Cash	\$ 181,726
Less - petty cash	(200)
Total	<u>\$ 181,526</u>

NOTE 3 - INVESTMENTS

Investments at June 30, 2012, are fully insured and are stated at fair value as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Net Unrealized Appreciation (Loss)</u>
Certificates-of-deposit	\$ 85,325	\$ <u>85,325</u>	\$ -

The following schedule summarizes the investment return and its classification in the Statement of Activities:

Interest	<u>\$1,985</u>
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NOTE 4 - INVENTORY - UNDISTRIBUTED FOOD

The Entity values donated food at an average wholesale market price per pound of \$1.66 for June 30, 2012, and \$1.66 for June 30, 2011, 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, 2012	<u>730,537</u>	<u>\$1.66</u>	<u>\$1,212,692</u>
June 30, 2011	<u>837,669</u>	<u>\$1.66</u>	<u>\$1,390,531</u>

NOTE 5 - ACCOUNTS RECEIVABLE - NET

Accounts receivable at June 30, 2012, consists of the following:

Member agencies	\$ 69,185
Allowance for bad debt	<u>(11,943)</u>
Accounts receivable - net	<u>\$ 57,242</u>

Bad debt expense for the year ended June 30, 2012, was \$5,109.

NOTE 6 - GRANTS RECEIVABLE

Grants receivable at June 30, 2012, consist of the following:

State of Tennessee Department of Agriculture	<u>\$13,050</u>
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NOTE 7 - LAND, BUILDING AND EQUIPMENT

Activity for the year ended June 30, 2012, consists of the following:

	Balance <u>6-30-2011</u>	Additions	Deletions	Balance <u>6-30-2012</u>
Land	\$ 399,245	\$ -	\$ -	\$ 399,245
Building	2,612,578	1,490	-	2,614,068
Vehicles	214,926	91,000	-	305,926
Office furniture and fixtures	84,804	-	-	84,804
Greenhouse	26,741	-	-	26,741
Warehouse equipment	<u>146,704</u>	<u>47,091</u>	<u>(3,500)</u>	<u>190,295</u>
	3,484,998	139,581	(3,500)	3,621,079
Accumulated depreciation	<u>(704,231)</u>	<u>(119,572)</u>	<u>3,500</u>	<u>(820,303)</u>
Land, building and equipment - net	<u>\$ 2,780,767</u>	<u>\$ 20,009</u>	<u>\$ -</u>	<u>\$ 2,800,776</u>

Depreciation expense was \$119,572 for the year ended June 30, 2012.

NOTE 8 - ACCRUED LIABILITIES

Accrued liabilities at June 30, 2012, consist of the following:

Accrued vacation and sick leave	\$ 151,730
Other accrued liabilities	<u>10,597</u>
Total	<u>\$ 162,327</u>

NOTE 9 - NOTE PAYABLE

The Entity has a note payable to First Tennessee Bank at 4.91% interest, with a 20 year amortization and a 7 year balloon payment. The original loan amount was \$815,000. The balance remaining at June 30, 2012, was \$642,216. Future debt requirements are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Payments</u>
2013	\$ 44,321	\$ 58,591	\$ 102,912
2014	47,148	55,764	102,912
2015	50,156	52,756	102,912
2016	53,356	49,556	102,912
2017	56,759	46,153	102,912
2018-2022	342,954	171,606	514,560
2023	<u>47,522</u>	<u>20,654</u>	<u>68,176</u>
Total	<u>\$ 642,216</u>	<u>\$ 455,080</u>	<u>\$ 1,097,296</u>

Interest expense was \$34,688 for 2012.

NOTE 10 - TEMPORARILY RESTRICTED ASSETS

Temporarily restricted assets consist of the following:

Undistributed food inventory	<u>\$1,212,692</u>
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NOTE 11 - 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 12 - PENSION PLAN

The Entity has started 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 \$33,908 for the year ended June 30, 2012.

NOTE 13 - 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 \$417,100 passed through the Tennessee Department of Agriculture. The Chattanooga Area Food Bank, Inc. had \$45,198 of USDA Commodities on hand at June 30, 2012. 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 \$72,682 and recorded on the books as part of the commodity service revenue.

NOTE 14 - FAIR VALUE MEASUREMENT

ASC 820-10-50 defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the assets or liability or, in the absence of a principal market the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Fund has the ability to access.
- 2) Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.
- 3) Level 3 are unobservable inputs for the assets or liability and rely on management’s own assumptions about the assumptions that market participants would use in pricing the assets or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the Entity’s own data.)

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2012.

Assets	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	\$ 85,325	\$ -	\$ -	\$ 85,325

NOTE 15 - COMPLIANCE WITH FINANCE RELATED LEGAL AND CONTRACTUAL PROVISIONS

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

SUPPLEMENTAL INFORMATION

CHATTANOOGA AREA FOOD BANK, INC.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Assistance Programs as Identified in the Catalog of Federal Domestic Assistance

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Award Number</u>	<u>(Accrued) Deferred Grant Revenues July 1, 2011</u>	<u>Assistance/ Grant Revenues Received</u>	<u>Expenditures</u>	<u>(Accrued) Deferred Grant Revenues June 30, 2012</u>
Federal						
U.S. Department of Agriculture						
State of Tennessee Department of Agriculture	10.569	GR-20802	\$ 3,805	\$ 417,100	\$ 375,707	\$ 45,198
State of Tennessee Department of Agriculture	10.568	GR-20802 (Administrative Cost)	-	24,162	37,212	(13,050)
State of Tennessee Department of Agriculture	10.568	GR-17156 (Administrative Cost)	-	35,470	35,470	-
TOTAL FEDERAL AWARDS			<u>\$ 3,805</u>	<u>\$ 476,732</u>	<u>\$ 448,389</u>	<u>\$ 32,148</u>

CHATTANOOGA AREA FOOD BANK, INC.
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal 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, 2012.

CHATTANOOGA AREA FOOD BANK, INC.
Schedule of Activities - Temporarily Restricted
Year Ended June 30, 2012

	<u>Donated Food</u>
SUPPORT AND REVENUE	
Donations of food	<u>\$ 16,178,926</u>
Total support and revenue	<u>16,178,926</u>
 EXPENSES	
Program services	
Food distribution services	<u>16,356,765</u>
Total expenses	<u>16,356,765</u>
Increase (decrease) in net assets	(177,839)
Net Assets - beginning	<u>1,390,531</u>
Net Assets - end	<u>\$ 1,212,692</u>

III. INTERNAL CONTROL AND COMPLIANCE SECTION



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Chattanooga Area Food Bank, Inc.
Chattanooga, Tennessee

We have audited the financial statements of the Chattanooga Area Food Bank, Inc. (a non-profit entity) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Chattanooga Area Food Bank, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Chattanooga Area Food Bank, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Chattanooga Area Food Bank, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Chattanooga Area Food Bank, Inc.'s internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as 12-1 and 12-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Chattanooga Area Food Bank, Inc.'s financial statements are free of 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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Chattanooga Area Food Bank, Inc.'s responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Chattanooga Area Food Bank, Inc.'s responses and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, management, others within the Entity, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Johnson, Murphey & Wright, P.C.

Chattanooga, Tennessee
December 10, 2012

CHATTANOOGA AREA FOOD BANK, INC.
Schedule of Findings and Responses
June 30, 2012

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 two significant deficiencies in internal controls were disclosed, which were also considered in the aggregate to be material weaknesses.

Material Noncompliance:

None disclosed.

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

INTERNAL CONTROL:

Finding 12-1 - Accounting expertise (repeat 11-1)

Criteria:

SAS 115 states in part that the lack of accounting personnel with sufficient “training” to properly design controls over the year-end financial reporting process, including the actual “preparation of financial statements” is a “significant deficiency” and a strong indication of a “material weakness”.

Condition Found:

The Entity did not have accounting personnel on staff that had sufficient training to prepare their own financial report.

Recommendation:

The Entity should consider the risk benefits of continuing to allow the outside auditors to prepare the financial report versus having an internal auditor/CPA to perform the year-end financial reporting process.

Management’s Response:

We concur. However, even though we are aware that we cannot theoretically rely on our outside Certified Public Accountant as a part of our system, we feel that this is still a very important and very reliable way to safeguard our assets and report the transactions of the Entity. We are taking responsibility for the preparation and fair presentation of the financial statements and we possess suitable skill, knowledge, and/or experience to evaluate the adequacy of any services in this area provided by the auditor.

CHATTANOOGA AREA FOOD BANK, INC.
Schedule of Findings and Responses (Continued)
June 30, 2012

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

INTERNAL CONTROL: (Continued)

Finding 12-2 - Internal control over assets (repeat 11-2)

Criteria:

Government Auditing Standards Chapter A.04(h) states that, “inadequate controls for the safeguarding of assets...” is a control deficiency.

Condition Found:

- 1) Complete credit and debit card statements were not kept for the year. Many invoices and receipts for credit and debit card purchases were missing.
- 2) Not all invoices were approved for payment before the check was written.
- 3) Not all disbursements had proper documentation attached.

Recommendation:

- 1) All credit and debit card statements must be kept. Supporting invoices or receipts must be maintained in order to substantiate charges.
- 2) All invoices should be approved before being paid.
- 3) All disbursements should have proper documentation attached in order to substantiate charges.

Management’s Response:

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

CHATTANOOGA AREA FOOD BANK, INC.
Schedule of Prior Audit Findings
June 30, 2012

INTERNAL CONTROLS

Finding 11-1 - Accounting expertise

Still in effect.

Finding 11-2 - Internal control over assets

Still in effect.