

# **DOUGLAS COOPERATIVE, INC.**

**Sevierville, Tennessee**

## **AUDIT REPORT**

**June 30, 2013 and 2012**

**DOUGLAS COOPERATIVE, INC.**  
**Sevierville, Tennessee**

**AUDIT REPORT**

**June 30, 2013 and 2012**

**Douglas Cooperative, Inc.**

**Table of Contents**

**June 30, 2013**

	<u>Page</u>
Independent Auditor's Report	3
Statements of Financial Position	4
Statements of Activities	5 - 6
Statements of Functional Expenses	7 - 8
Statements of Cash Flows	9
Notes to Financial Statements	10 - 16
Auditor's Report on Compliance and Internal Control	17 - 18

# CRAINE, THOMPSON, & JONES, P.C.

## CERTIFIED PUBLIC ACCOUNTANTS

225 WEST FIRST NORTH STREET  
P.O. Box 1779  
SUITE 300, MILLENNIUM SQUARE  
MORRISTOWN, TENNESSEE 37816-1779  
423-586-7650

### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Douglas Cooperative, Inc.  
Sevierville, TN 37862

We have audited the accompanying financial statements of Douglas Cooperative, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years 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 audits. We conducted our audits 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.

#### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Douglas Cooperative, Inc. as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CRANE, THOMPSON, & JONES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Sevierville, Tennessee

JAMES W. CRAINE, CPA

GLENN B. THOMPSON, CPA

MIRA J. CRAINE, CPA

THOMAS M. JONES, CPA

HIRAM H. JONES, CPA

TERRY M. WINSTEAD, CPA

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2013, on our consideration of Douglas Cooperative, 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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Douglas Cooperative, Inc.'s internal control over financial reporting and compliance.

*Leanne, Thompson, & Forner P.C.*

October 25, 2013

**Douglas Cooperative, Inc.**  
**Statements of Financial Position**  
**June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b><u>Assets</u></b>		
Current assets:		
Cash and cash equivalents	\$ 521,935	\$ 669,583
Accounts receivable	307,730	206,446
Other assets	<u>13,554</u>	<u>5,760</u>
Total current assets	<u>843,219</u>	<u>881,789</u>
Fixed assets:		
Land	24,600	24,600
Building / leasehold improvements	1,358,123	1,358,123
Equipment	<u>413,277</u>	<u>376,204</u>
Sub-total	<u>1,796,000</u>	<u>1,758,927</u>
Less: accumulated depreciation	<u>(1,194,669)</u>	<u>(1,129,077)</u>
Total fixed assets - net	<u>601,331</u>	<u>629,850</u>
Total assets	<u>\$ 1,444,550</u>	<u>\$ 1,511,639</u>
<b><u>Liabilities</u></b>		
Current liabilities:		
Accounts payable	\$ 41,083	\$ 40,809
Current maturities of long-term debt	8,220	7,826
Other current liabilities	<u>115,708</u>	<u>117,625</u>
Total current liabilities	<u>165,011</u>	<u>166,260</u>
Long-term debt	<u>118,710</u>	<u>126,930</u>
Total liabilities	<u>283,721</u>	<u>293,190</u>
<b><u>Net Assets</u></b>		
Unrestricted	1,158,868	1,216,925
Temporarily restricted	<u>1,962</u>	<u>1,524</u>
Total net assets	<u>1,160,829</u>	<u>1,218,449</u>
Total liabilities and net assets	<u>\$ 1,444,550</u>	<u>\$ 1,511,639</u>

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

**Douglas Cooperative, Inc.**  
**Statements of Activities**  
For the Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b><u>Unrestricted Net Assets</u></b>			
Support:			
Contract fee	\$ 2,136,703	\$ -	\$ 2,136,703
Public support	54,878	-	54,878
Interest income	6,201	-	6,201
Local governments	42,000	-	42,000
Room and board	113,521	-	113,521
School contracts	16,800	-	16,800
Vending sales	1,324	-	1,324
Contract sales	57,319	-	57,319
Food stamps	7,440	-	7,440
Fundraising	10,089	-	10,089
Other	31,291	1,962	33,253
Net assets released from restrictions:			
Satisfaction of program restrictions		(1,524)	(1,524)
Total unrestricted support	<u>2,477,566</u>	<u>438</u>	<u>2,478,004</u>
Expenses:			
Program services:			
All other - cumulative	<u>2,235,315</u>	<u>-</u>	<u>2,235,315</u>
Total program services	<u>2,235,315</u>	<u>-</u>	<u>2,235,315</u>
Supporting services:			
Management and general	<u>299,777</u>	<u>-</u>	<u>299,777</u>
Total supporting services	<u>299,777</u>	<u>-</u>	<u>299,777</u>
Fundraising services:			
Supplies	<u>531</u>	<u>-</u>	<u>531</u>
Total fundraising services	<u>531</u>	<u>-</u>	<u>531</u>
Total expenses	<u>2,535,623</u>	<u>-</u>	<u>2,535,623</u>
(Decrease) increase in unrestricted net assets	(58,057)	438	(57,620)
Net assets, beginning of year	<u>1,216,925</u>	<u>1,524</u>	<u>1,218,449</u>
Net assets, end of year	<u>\$ 1,158,868</u>	<u>\$ 1,962</u>	<u>\$ 1,160,829</u>

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

**Douglas Cooperative, Inc.**  
**Statements of Activities**  
For the Year Ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b><u>Unrestricted Net Assets</u></b>			
Support:			
Contract fee	\$ 2,206,741	\$ -	\$ 2,206,741
Public support	66,327	-	66,327
Interest income	7,916	-	7,916
Local governments	46,858	-	46,858
Room and board	107,483	-	107,483
School contracts	16,000	-	16,000
Vending sales	1,635	-	1,635
Contract sales	68,142	-	68,142
Food stamps	10,324	-	10,324
Other	68,881		68,881
 Total unrestricted support	 <u>2,600,307</u>	 -	 <u>2,600,307</u>
Expenses:			
Program services:			
All other - cumulative	<u>2,353,520</u>	<u>-</u>	<u>2,353,520</u>
 Total program services	 <u>2,353,520</u>	 -	 <u>2,353,520</u>
Supporting services:			
Management and general	<u>298,826</u>	<u>-</u>	<u>298,826</u>
 Total supporting services	 <u>298,826</u>	 -	 <u>298,826</u>
 Total expenses	 <u>2,652,346</u>	 -	 <u>2,652,346</u>
 (Decrease) increase in unrestricted net assets	 (52,039)	 -	 (52,039)
 Net assets, beginning of year	 <u>1,268,964</u>	 <u>1,524</u>	 <u>1,270,488</u>
 Net assets, end of year	 <u>\$ 1,216,925</u>	 <u>\$ 1,524</u>	 <u>\$ 1,218,449</u>

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

**Douglas Cooperative, Inc.**  
**Statement of Functional Expenses**  
For the Year Ended June 30, 2013

	<b>Program Expenses</b>	<b>Admin.</b>	<b>Fundraising</b>	<b>Total Functional Expenses</b>
Personnel services	\$ 1,412,261	\$ 194,140	\$ -	\$ 1,606,401
Fringe benefits	<u>422,039</u>	<u>51,183</u>	<u>-</u>	<u>473,222</u>
 Total personnel costs	 1,834,300	 245,323		 2,079,623
Travel	384	126		510
Recruiting	2,927	69		2,996
Communications	20,056	6,280		26,336
Printing and duplicating	5,691	1,506		7,197
Utilities and fuel	39,257	4,280		43,537
Maintenance and repairs	34,257	8,138		42,395
Professional services	1,350	1,705		3,055
Supplies	37,157	6,239	531	43,927
Food	48,546	571		49,117
Insurance	35,360	3,429		38,789
Transportation	52,285	-		52,285
Depreciation	51,392	14,197		65,589
Miscellaneous	1,523	774		2,297
Client wages	41,034	-		41,034
Client benefits	4,382	-		4,382
Interest	7,488	42		7,530
Client recreation	75	-		75
Training and seminars	1,277	2,957		4,234
Licensure fees	4,430	-		4,430
Bad debt	1,592	-		1,592
Dues	1,460	3,924		5,384
Audit	8,500	-		8,500
Real estate taxes	<u>592</u>	<u>217</u>		<u>809</u>
 Total expenses	 <u>\$ 2,235,315</u>	 <u>\$ 299,777</u>	 <u>\$ 531</u>	 <u>\$ 2,535,623</u>

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

**Douglas Cooperative, Inc.**  
**Statement of Functional Expenses**  
For the Year Ended June 30, 2012

	<b>Program Expenses</b>	<b>Admin.</b>	<b>Total Functional Expenses</b>
Personnel services	\$ 1,498,709	\$ 196,889	\$ 1,695,598
Fringe benefits	<u>410,599</u>	<u>49,220</u>	<u>459,819</u>
 Total personnel costs	 1,909,308	 246,109	 2,155,417
Travel	477	68	545
Recruiting	2,045	-	2,045
Communications	19,022	6,114	25,136
Printing and duplicating	5,736	1,036	6,772
Utilities and fuel	35,906	3,650	39,556
Maintenance and repairs	34,713	9,576	44,289
Professional services	13,021	1,018	14,039
Supplies	36,365	5,351	41,716
Food	56,390	1,187	57,577
Insurance	21,500	2,631	24,131
Transportation	78,883	3,397	82,280
Depreciation	47,823	13,746	61,569
Miscellaneous	152	-	152
Client wages	57,312	-	57,312
Client benefits	6,700	-	6,700
Interest	9,105	91	9,196
Client recreation	561	-	561
Training and seminars	3,116	538	3,654
Donations	116	-	116
Licensure fees	1,912	4,115	6,027
Medical expense	245	-	245
Dues	1,488	-	1,488
Audit	9,455	-	9,455
Real estate taxes	<u>2,169</u>	<u>199</u>	<u>2,368</u>
 Total expenses	 <u>\$ 2,353,520</u>	 <u>\$ 298,826</u>	 <u>\$ 2,652,346</u>

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

**Douglas Cooperative, Inc.**  
**Statements of Cash Flows**  
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Cash flows from operating activities:</b>		
(Decrease) increase in net assets	\$ (57,620)	(52,039)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	65,589	61,569
Gain on disposition of assets	-	(44,175)
(Increase) decrease in operating assets:		
Accounts receivable	(101,284)	54,616
Other assets	(7,794)	(4,160)
Increase (decrease) in operating liabilities:		
Accounts payable	4,519	9,692
Deferred revenue	-	(12,356)
Other current liabilities	<u>(6,162)</u>	<u>(95,387)</u>
Net cash provided by (used in) operating activities	<u>(102,752)</u>	<u>(82,240)</u>
<b>Cash flows from investing activities:</b>		
Proceeds from disposition of assets	-	149,000
Purchases of property and equipment	<u>(37,070)</u>	<u>(5,670)</u>
Net cash provided by (used in) investing activities	<u>(37,070)</u>	<u>143,330</u>
<b>Cash flows from financing activities:</b>		
Principal payments on long term debt	<u>(7,826)</u>	<u>(7,446)</u>
Net cash provided by (used in) financing activities	<u>(7,826)</u>	<u>(7,446)</u>
Net (decrease) increase in cash flows	(147,648)	53,644
Beginning cash and cash equivalents	<u>669,583</u>	<u>615,939</u>
Ending cash and cash equivalents	<u>\$ 521,935</u>	<u>\$ 669,583</u>
<b>Supplemental data:</b>		
Interest paid	<u>\$ 7,488</u>	<u>\$ 9,196</u>

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

**Douglas Cooperative, Inc.**  
**Notes to Financial Statements**  
**June 30, 2013 and 2012**

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

**A. Nature of Activities**

Douglas Cooperative, Inc., is a community-based program providing services to persons with developmental disabilities, primarily composed of adult supervised residences, vocational training, employment opportunities, and day services in Blount, Cocke, Jefferson, and Sevier counties in East Tennessee.

**B. Financial Statement Presentation**

The Company has adopted professional standards established for the presentation of general purpose external financial statements of not-for-profit organizations 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) based upon the existence or absence of donor imposed restrictions. As permitted by this new standard, Douglas Cooperative, Inc., has discontinued its use of fund accounting and has accordingly, reclassified its financial statements to present classes of net assets.

The Company has adopted professional standards established for the presentation of general purpose external financial statements of not-for-profit organizations that require contributions received to be recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

**C. Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

**D. Cash Equivalents**

Cash equivalents consist of short-term, highly liquid investments, which are readily convertible into cash within ninety days of purchase.

**E. Capitalization Policy**

All purchases of equipment, as well as any additions to buildings, exceeding \$500 are capitalized.

**F. Method of Depreciation**

Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the assets, which range from 4 to 40 years. Depreciation expense totaled \$65,589 and \$61,569 for the years ended June 30, 2013 and 2012.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **G. Revenue Recognition**

The organization has adopted professional standards established for contributions received. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. 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.

Contributions of donated non-cash assets are recorded at their fair values in the period received and capitalized in the statement of financial position.

Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

### **H. Compensated Absences:**

Annual leave is accumulated as follows:

0-5 years of service	- 1 day per month
5-10 years of service	- 1 1/2 days per month
Over 10 years	- 1 3/4 days per month

Annual leave exceeding 24 days may be transferred to sick leave not to exceed 60 days.

Sick leave is accumulated at the rate of 1 day per month with a maximum of 60 days. In order to accumulate a day, an employee must have been paid more than 50% of their salary during the month. Full time employees who work in a permanent position are eligible to earn 8 hours of sick leave for each month of continued employment.

The liability for unused leave at June 30, 2013 and 2012, was \$64,625 and \$64,746, respectively. These amounts were included in "Other Current Liabilities" on the Statements of Financial Position.

### **I. Functional Allocation of Expenses**

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

### **J. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles required 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)

### K. Income Taxes

Douglas Cooperative, Inc., is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements. In addition, Douglas Cooperative, Inc., has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for 2013 or 2012.

### L. Reclassifications

Certain amounts reported in prior years' financial statements have been reclassified to conform to the classifications used in the most recent year.

### M. Allowance for Bad Debts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding accounts receivable. The allowance for doubtful accounts is \$0 and \$0 at June 30, 2013 and 2012.

### N. Fair Value Disclosures

Effective July, 2008, Douglas Cooperative, Inc. adopted professional standards that generally permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. These professional standards also provide guidance on financial assets and liabilities that are not subject to fair value measurement. Upon adoption of these standards, Douglas Cooperative, Inc. did not elect the fair value option for any financial instruments.

These professional standards define fair value, provide a framework for measuring fair value, and expand disclosures about fair value measurements. These professional standards define fair value as the exchange price that would be received for an asset or paid to transfer a liability in the most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Douglas Cooperative, Inc. utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

In accordance with these professional standards, when measuring fair value, Douglas Cooperative, Inc. uses valuation techniques that are appropriate and consistently applied. A hierarchy is also established under these standards and is used to prioritize valuation inputs into the following three levels to determine fair value:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than the quoted prices included in Level 1.

Level 3: Unobservable inputs.

Due to their short-term nature, the carrying value of the Douglas Cooperative, Inc.'s assets and liabilities approximate fair value. The fair value of Douglas Cooperative, Inc.'s borrowings, if recalculated based on current interest rates, would not significantly differ from the recorded amounts. Fair value of Douglas Cooperative, Inc.'s borrowings is based upon Level 2 inputs for quoted interest rates for similar debt instruments. All other financial instruments are based upon Level 3 inputs, which represent management's assumptions about fair value.

## NOTE 2 - LAND, BUILDINGS, EQUIPMENT, AND DEPRECIATION

Land, buildings, equipment, and the related accumulated depreciation as of June 30, 2013 and 2012, were as follows:

	<u>2013</u>	<u>2012</u>
Land	\$ 24,600	\$ 24,600
Building / leasehold improvements	1,358,123	1,358,123
Equipment	413,277	376,204
Sub-total	<u>1,796,000</u>	<u>1,758,927</u>
Less: accumulated depreciation	(1,194,669)	(1,129,077)
Net fixed assets	<u>\$ 601,331</u>	<u>\$ 629,850</u>

The land and buildings are pledged as collateral to secure the various mortgages used to acquire the assets.

## NOTE 3 - LONG-TERM DEBT

The mortgage note was refinanced with Sevier County Bank in February, 2010.

Long-term debt consisted of mortgage notes payable as follows:

<u>Lender / Issued</u>	<u>Interest Rate</u>	<u>Purpose</u>	<u>Monthly Payment</u>	<u>Matures Year Ending June 30,</u>	<u>Outstanding Balance</u>
Sevier County Bank	5.00%	Blount County Center	\$ 1,199	2025	\$ 126,930
Total debt					126,930
Less: current portion					<u>8,220</u>
Total long-term debt					<u>\$ 118,710</u>

Future maturities for the outstanding debt principal and interest are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	8,220	6,159
2015	8,647	5,739
2016	9,090	5,296
2017	9,555	4,826
Thereafter	<u>91,418</u>	<u>28,935</u>
	<u>\$ 126,930</u>	<u>\$ 50,955</u>

### **NOTE 3 - LONG-TERM DEBT (CONTINUED)**

The fair values of the notes payable are based on the current rates offered to the Agency for debt of the same remaining maturities. At June 30, 2013 and 2012, the fair values of the notes payable approximate the amounts recorded in the financial statements.

### **NOTE 4 - PENSION PLAN**

Douglas Cooperative, Inc., does not have a formal pension plan. The organization had contracted with ING-Reliastar Insurance whereby this company would administer an individual plan for each employee. The Board of Directors decided to terminate this plan effective May 31, 2012.

### **NOTE 5 - COMMITMENTS AND CONTINGENCIES**

The organization receives a material amount of its funding from the State of Tennessee. Should this funding be significantly reduced or eliminated, the effect on Douglas' operations could be catastrophic.

### **NOTE 6 - RELATED PARTY TRANSACTIONS**

Douglas Cooperative, Inc. is related through a common board of directors to the following organizations:

Douglas Housing Association, Inc.  
Douglas Shelters Two, Inc.  
Douglas Shelters Three, Inc.  
Douglas Shelters Four, Inc.

These organizations were created to provide housing for clients of Douglas Cooperative, Inc. Each project was financed with HUD funds and is subsidized by HUD Section 8 money. Douglas Cooperative, Inc., acts as the management agent for each of these projects and is paid a monthly management fee and bookkeeping fee by them.

During the years ending June 30, 2013 and 2012, Douglas Cooperative, Inc., received the following fees (each year):

Douglas Housing Association, Inc.	\$ 1,278
Douglas Shelters Two, Inc.	2,410
Douglas Shelters Three, Inc.	2,189
Douglas Shelters Four, Inc.	2,279

In the ordinary course of business, Douglas Cooperative, Inc., sometimes buys various office supplies from a board member. Douglas Cooperative, Inc., believes all transactions are made on substantially the same terms as those prevailing at the time for comparable transactions with unaffiliated persons. There were not any of these type transactions in 2013 or 2012.

## **NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes or periods:

Bill Cline Memorial Fund	\$ 1,070
Blount County Checking	<u>892</u>
Total Temporarily Restricted	<u>\$ 1,962</u>

Net assets were released from the donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

Doris Catlett Scholarship Fund	<u>\$ 1,524</u>
Total Net Assets Released From Restrictions	<u>\$ 1,524</u>

## **NOTE 8 - CONCENTRATIONS**

Douglas Cooperative, Inc.'s deposits at Sevier County Bank consistently exceeded the \$250,000 of coverage provided by the FDIC. However, Sevier County Bank has pledged \$750,000 in U.S. Treasury notes to secure deposits in excess of \$250,000. At June 30, 2013, the deposits did not exceed the pledge limit.

## **NOTE 9 – SUBSEQUENT EVENTS**

During the year ending June 30, 2010, Douglas Cooperative, Inc. adopted a provision in current professional accounting standards related to the accounting for and disclosure of events that occur after the balance sheet date but before the date the financial statements are issued or available to be issued. The new provision requires companies to reflect in their financial statements the effects of subsequent events that provide additional evidence about conditions at the balance sheet date. Subsequent events that provide evidence about conditions that arose after the balance-sheet date should be disclosed if the financial statements would otherwise be misleading. Disclosures should include the nature of the event and either an estimate of its financial effect or a statement that an estimate cannot be made. The provision also requires the disclosure of the date through which an entity has evaluated subsequent events and whether that date represents the date the financial statements were issued or were available to be issued. The Company has evaluated subsequent events through September 30, 2013, the date the financial statements are issued, and determined that the following event should be disclosed. Douglas Cooperative, Inc. was named a "potentially responsible party" when Marine Shale Processors was sued by the US EPA and the Louisiana Department of Environmental Quality for EPA violations. The Maryville office of Douglas Cooperative, Inc. arranged for disposal of hazardous substances at the site in 1988 and 1990. Douglas Cooperative, Inc. was offered a "de minimus" settlement of \$8,000 in June 2013. After consultation with legal counsel, Douglas Cooperative, Inc. paid the "de minimus" settlement of \$8,000 in July 2013.

## **NOTE 11 – UNCERTAIN TAX POSITIONS**

The Organization has been classified as an other-than-private foundation and is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. The Organization is subject to a tax on income from any unrelated business.

The Organization adopted the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Organization has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Organization believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on the Organization's financial condition, results of operations or cash flows. Accordingly, the Organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2013.

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for years prior to 2009.

The Organization's policy is to classify income tax related interest and penalties in interest expense and other expenses, respectively.

# CRAINE, THOMPSON, & JONES, P.C.

## CERTIFIED PUBLIC ACCOUNTANTS

225 WEST FIRST NORTH STREET  
P.O. BOX 1779  
SUITE 300, MILLENNIUM SQUARE  
MORRISTOWN, TENNESSEE 37816-1779  
423-586-7650

### 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  
Douglas Cooperative, Inc.  
Sevierville, TN 37862

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 Douglas Cooperative, Inc.(a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 25, 2013.

#### **Internal Control Over Financial Reporting**

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

Our consideration of 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. 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.

To the Board of Directors

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Douglas Cooperative, 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*.

**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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Craine Thompson + Jones, P.C.*

October 25, 2013