

# Knoxville / Knox County Animal Center



## FINANCIAL STATEMENTS

June 30, 2009 and June 30, 2008



Prepared By:



**KNOXVILLE-KNOX COUNTY  
ANIMAL CENTER**

**FINANCIAL STATEMENTS**

**June 30, 2009 and June 30, 2008**

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KNOXVILLE- KNOX COUNTY  
ANIMAL CENTER  
Knoxville, Tennessee

FINANCIAL STATEMENTS  
June 30, 2009 and June 30, 2008

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**INTRODUCTORY  
SECTION**

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KNOXVILLE-KNOX COUNTY  
ANIMAL CENTER

BOARD OF DIRECTORS

June 30, 2009

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Dr. Michael Blackwell, Chairman

Kristin Williams

Jane Bolus

Trent Ferrell

Margie Nichols

Ivan Harmon

Kim Wood McClamroch

Carmen Trammell

Dr. Kristi Lively

Ellen Adcock

## **FINANCIAL SECTION**



**KPMG LLP**  
401 Commerce Street, Suite 1000  
Nashville, TN 37219-2422

## **Independent Auditor's Report**

The Board of Directors  
Knoxville – Knox County Animal Center:

We have audited the accompanying financial statements of the Knoxville – Knox County Animal Center (the Center), as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the Center's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Knoxville – Knox County Animal Center as of June 30, 2009 and 2008, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2009 on our consideration of the Center'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 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.

The information in the management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

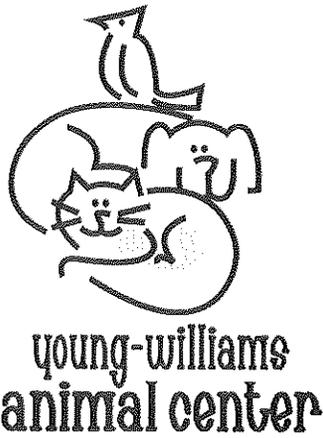
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Center's basic financial statements. The information in the introductory and supplementary



information sections listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated 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 them.

KPMG LLP

December 18, 2009



#### **BOARD OF DIRECTORS**

**Dr. Michael Blackwell**  
Chair

**Ellen R. Adcock**  
Vice Chair

**Kristin Williams**  
Secretary

**Margie Nichols**  
Treasurer

**Jenny Boyd**

**Monica Franklin**

**Commissioner**  
**Ivan Harmon**

**Roy Kruse**

**Dr. Kristi Lively**

**Candy Wansley**

**Kim Wood McClamroch**

**Honorary Lifetime**  
**Founding Chair**  
**Mark Williams**

3201 Division Street  
Knoxville, TN 37919  
865 / 215-6599  
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www.knoxpets.org

## **Management's Discussion and Analysis**

As management of the Knoxville, Knox County Animal Center (the Center), we offer the readers of the Center's financial statements this narrative overview and analysis of the financial activities of the Center for the fiscal years ended June 30, 2009 and June 30, 2008. We encourage readers to consider the information presented here in conjunction with the information provided in the financial statements, notes to financial statements and supplementary information when reviewing the Center's financial activities and condition.

### **Financial Highlights for Fiscal Year 2009**

- The assets of the Center exceeded its liabilities at the close of the most recent fiscal year by \$398,667 (net assets). A small portion of this amount may be used to meet the Center's ongoing obligations to citizens and creditors. The majority of this amount \$304,502 (net assets) is designated for other Center programs or invested in capital assets.
- The Center's cash and cash equivalents decreased by \$9,548. This decrease is due to the capital outlay costs that occurred during the current fiscal year.
- The Center's total liabilities increased by \$13,047. This increase is primarily due to the increase in accrued payroll and compensated absences.
- The Center's total net assets were increased by \$20,865. The current year's increase is due to increased operating revenues, primarily from other governments and citizens groups.

### **Financial Highlights for Fiscal Year 2008**

- The assets of the Center exceeded its liabilities at the close of the most recent fiscal year by \$377,802 (net assets). A small portion of this amount may be used to meet the Center's ongoing obligations to citizens and creditors. The majority of this amount \$285,166 (net assets) is designated for other Center programs or invested in capital assets.
- The Center's cash and cash equivalents increased by \$198,576. This increase is due to increased operating revenues and additional appropriations from the City of Knoxville and Knox County.
- The Center's total liabilities decreased by \$4,347. This decrease is primarily due to the decrease in accounts payable.
- The Center's total net assets were increased by \$66,501. The current year's increase is due to increased operating revenues and additional appropriations from the City of Knoxville and Knox County.

## Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the Center's basic financial statements. The Center's basic financial statements consist of two components: 1) financial statements comprised of the Comparative Statements of Net Assets, the Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets, and the Comparative Statements of Cash Flows, and 2) Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Financial Statements.** The Comparative Statements of Net Assets presents information on all of the Center's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Center is improving or deteriorating.

The Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets present information showing how the Center's net assets changed during the last two fiscal years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs (full accrual accounting), regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected user service fees, and earned but unused vacation leave).

The Comparative Statements of Cash Flows presents information on the actual cash inflows and outflows resulting from the various operating, financing, capital, and investing activities of the Center for the last two fiscal years.

The financial statements can be found on pages 9 – 13 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 14 – 22 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the Center's budgetary compliance and variances from the original budget and final amended budget. This supplementary information can be found on page 23 of this report.

## Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Center's financial position. As of June 30, 2009, the Center's assets exceeded its liabilities by \$398,667 (*net assets*). At June 30, 2008, the Center's net assets totaled \$377,802. The majority of the Center's net assets reflect its current assets (e.g., cash and cash equivalents and prepaid items). Current assets (less current liabilities) amount to \$222,228, which is 56 percent of total net assets.

A small amount of total net assets are available for future operational spending as 76 percent are either designated on how they may be used or are invested in capital assets. Amounts invested in capital assets total 46 percent of the Center's net assets.

As the following table shows, the Center reported an increase in net assets of \$20,865 at the end of the current fiscal year ended June 30, 2009. This increase is primarily the result of increasing operating revenues. For the fiscal year ended June 30, 2009, the Center's funding from the City of Knoxville and Knox County was \$1,326,380 the same amount that was received in the fiscal year ended 2008, Operating revenues totaled \$1,197,569 for the year ended June 30, 2009 compared to \$859,014 for the year ended June 30, 2008, an increase of \$338,555. Capital assets decreased by \$3,025 in fiscal year 2009 due to the depreciation expense, and the purchase of security cameras, a new vehicle, and land improvements made at the Center.

During the fiscal year ended June 30, 2008, the Center reported an increase in net assets of \$66,501. This increase was primarily the result of increased revenues and the additional appropriations from the City of Knoxville and Knox County. The decrease in capital assets was due to the depreciation expense of \$46,328.

**Knoxville-Knox County  
Animal Center  
Net Assets**

	FYE June 30, 2009	FYE June 30, 2008	FYE June 30, 2007
Current and other assets	\$ 366,611	\$ 329,674	\$ 221,192
Capital assets	182,287	185,312	231,640
Total assets	<u>\$ 548,898</u>	<u>\$ 514,986</u>	<u>\$ 452,832</u>
Long-term liabilities outstanding	\$ 5,848	\$ 4,360	\$ 3,991
Other liabilities	144,383	132,824	137,540
Total liabilities	<u>150,231</u>	<u>137,184</u>	<u>141,531</u>
Net assets:			
Invested in capital assets	182,287	185,312	231,640
Unrestricted:			
Designated prior year encumbrances	-	21,980	-
Designated for prepaid items	27,084	-	-
Designated inventory	92,551	71,724	66,070
Designated various programs	2,580	6,150	13,564
Undesignated	94,165	92,636	27
Total net assets	<u>398,667</u>	<u>377,802</u>	<u>311,301</u>
	<u>\$ 548,898</u>	<u>\$ 514,986</u>	<u>\$ 452,832</u>

The next table shows the key elements from ongoing operations that contributed to the increase in net assets of \$20,865 during the current fiscal year. Operating revenues, comprised mainly of user service fees (e.g., adoption fees, boarding/impound fees, and adopt-a-pet adoption fees) and other governments & citizens groups (e.g., private donations) increased by \$338,555 in fiscal year 2009, while in fiscal year 2008 they increased by \$12,399. Adoption fees decreased 8 percent to \$315,103 in fiscal year 2009, while in fiscal year 2008 they increased 37 percent to \$341,388, User service fees for the fiscal year ended June 30, 2009 were \$367,864 compared to \$385,388 for the fiscal year ended June 30, 2008, a decrease of \$17,524. User service fees increased during fiscal year 2008 by \$105,618. Other governments and citizens groups revenue was \$829,705 for the fiscal year ended 2009 compared to \$473,626 for the fiscal year ended 2008, an increase of \$356,079. During fiscal year ended June 30, 2008, revenue from other governments and citizens groups decreased \$93,219. Subsidies from Knox County and the City of Knoxville was \$1,326,380 for the 2009 fiscal year; the same amount for the 2008 fiscal year. In fiscal year 2008, subsidies from Knox County and the City of Knoxville increased \$60,000. Additionally, interest earnings decreased by \$33 to \$0 in fiscal year 2009 compared to fiscal year 2008 of \$33. The bank account accruing the interest was closed during the fiscal year ended 2008.

Expenses for fiscal year 2009 were \$2,503,084 compared to \$2,118,926 in fiscal year 2008, an increase of \$384,158. The increase in expenses was primarily due to additional operating costs associated with additional staff for the Center's operations and Mobile Spay/Neuter Clinic. During fiscal year 2008, expenses increased by \$287,369 over fiscal year 2007. The increase was primarily due to additional personnel costs associated with additional staff for the Center's operations and Mobile Spay/Neuter Clinic.

**Knoxville-Knox County  
Animal Center  
Changes in Net Assets**

	FYE <u>June 30, 2009</u>	FYE <u>June 30, 2008</u>	FYE <u>June 30, 2007</u>
Revenues:			
Operating revenues:			
User service fees	\$ 367,864	\$ 385,388	\$ 279,770
Other governments & citizens groups	829,705	473,626	566,845
Nonoperating revenues:			
Knox County Subsidy	663,190	663,190	633,190
City of Knoxville Subsidy	663,190	663,190	633,190
Interest income	-	33	209
Total revenues	<u>2,523,949</u>	<u>2,185,427</u>	<u>2,113,204</u>
Expenses:			
Operating expenses - cost of sales and services:			
Personal services	1,308,446	1,068,575	900,781
Employee benefits	438,329	338,452	248,344
Contracted services	197,794	157,399	138,856
Supplies and materials	467,891	419,558	392,155
Other charges	90,624	134,942	51,421
Nonoperating expense:			
Payment to Knox County	-	-	100,000
Total expenses	<u>2,503,084</u>	<u>2,118,926</u>	<u>1,831,557</u>
(Decrease) increase in net assets	20,865	66,501	281,647
Net assets July 1	<u>377,802</u>	<u>311,301</u>	<u>29,654</u>
Net assets June 30	<u>\$ 398,667</u>	<u>\$ 377,802</u>	<u>\$ 311,301</u>

## **Budgetary Highlights**

The Schedule of Revenues and Expenses and Change in Net Assets – Budget to Actual (Budget Basis) (Unaudited), which is found in the supplementary information section of this report on page 23, details the adopted budget, budget revisions, revised budget, and actual revenues and expenses, as well as the variances from the final revised budget. There were some budget revisions to the adopted revenue budget in fiscal year 2009. Those revisions totaled \$154,392. The final revised operating expense budget exceeded the original adopted budget by \$154,392 in additional appropriations. This was primarily due to the additional appropriations for the new spay/neuter programs, additional personnel costs and capital outlay expenditures during the current fiscal year. The Center's actual revenue was less than the revised budget revenue by \$3,717 due primarily to the operating revenue budget being increased with additional appropriations from fund balance for costs already mentioned above. Actual expenses were \$24,582 less than the revised expenditure budget due to cost-saving measures implemented by management.

## **Capital Assets and Debt Administration**

**Capital Assets.** The Center's investment in capital assets as of June 30, 2009 amounted to \$182,287 (net of accumulated depreciation). This investment in capital assets included a vehicle purchased in the current fiscal year for \$19,441, new security cameras for \$6,958, and the new retention pond for \$16,904. Current year depreciation expense was \$46,328. The Center purchased no capital assets in fiscal year 2008. Depreciation expense in fiscal year 2008 was \$46,328.

**Long-term Liabilities.** At the end of the current fiscal year, the Center's long-term liabilities consisted of compensated absences payable of \$5,848 compared to \$4,360 at the end of fiscal year 2008.

## **Request for Information**

This financial report is designed to provide a general overview of the Knoxville, Knox County Animal Center's finances for all of those with an interest in the Center's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Executive Director, Knoxville, Knox County Animal Center, 3201 Division Street, Knoxville, Tennessee 37919.

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**KNOXVILLE-KNOX COUNTY  
ANIMAL CENTER**

**COMPARATIVE STATEMENTS OF NET ASSETS  
June 30, 2009 and June 30, 2008**

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	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 206,957	\$ 216,505
Accounts receivable	40,019	41,445
Inventory	92,551	71,724
Prepaid items	27,084	-
Total current assets	<u>366,611</u>	<u>329,674</u>
<b>Noncurrent assets:</b>		
Capital assets:		
Land improvements	16,904	-
Equipment	6,958	-
Vehicles	265,884	246,443
Less: accumulated depreciation	<u>(107,459)</u>	<u>(61,131)</u>
Total capital assets (net of accumulated depreciation)	<u>182,287</u>	<u>185,312</u>
Total assets	<u>\$ 548,898</u>	<u>\$ 514,986</u>

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

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**KNOXVILLE-KNOX COUNTY  
ANIMAL CENTER**

**COMPARATIVE STATEMENTS OF NET ASSETS - (Continued)  
June 30, 2009 and June 30, 2008**

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	<u>2009</u>	<u>2008</u>
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 52,684	\$ 56,709
Accrued payroll payable	39,073	36,878
Compensated absences payable	52,626	39,237
Total current liabilities	<u>144,383</u>	<u>132,824</u>
<b>Noncurrent liabilities:</b>		
Compensated absences payable	5,848	4,360
Total liabilities	<u>150,231</u>	<u>137,184</u>
<b>NET ASSETS</b>		
Invested in capital assets	182,287	185,312
Unrestricted	216,380	192,490
Total net assets	<u>398,667</u>	<u>377,802</u>
	<u>\$ 548,898</u>	<u>\$ 514,986</u>

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

**KNOXVILLE-KNOX COUNTY  
ANIMAL CENTER**

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
For the Years Ended June 30, 2009 and June 30, 2008**

	<b>2009</b>	<b>2008</b>
<b>Operating revenues:</b>		
User service fees	\$ 367,864	\$ 385,388
Other governments & citizens groups	829,705	473,626
Total operating revenues	1,197,569	859,014
<b>Operating expenses - cost of sales and services:</b>		
Personal services	1,308,446	1,068,575
Employee benefits	438,329	338,452
Contracted services	197,794	157,399
Supplies and materials	467,891	419,558
Other charges	90,624	134,942
Total operating expenses - cost of sales and services	2,503,084	2,118,926
Operating loss	(1,305,515)	(1,259,912)
<b>Nonoperating revenues (expenses):</b>		
Knox County Subsidy	663,190	663,190
City of Knoxville Subsidy	663,190	663,190
Interest income	-	33
Total nonoperating revenues	1,326,380	1,326,413
Change in net assets	20,865	66,501
Total net assets - beginning	377,802	311,301
Total net assets - ending	\$ 398,667	\$ 377,802

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

**KNOXVILLE-KNOX COUNTY  
ANIMAL CENTER**

**COMPARATIVE STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2009 and June 30, 2008**

	<b>2009</b>	<b>2008</b>
<b>Cash Flows from Operating Activities</b>		
Receipts from customers and users	\$ 1,198,995	\$ 954,762
Payments to vendors	(761,917)	(696,904)
Payments to employees	(1,729,703)	(1,385,695)
	(1,292,625)	(1,127,837)
<b>Cash Flows from Noncapital Financing Activities</b>		
Subsidy from Knox County	663,190	663,190
Subsidy from City of Knoxville	663,190	663,190
	1,326,380	1,326,380
<b>Cash Flows used in Capital and Related Financing Activities</b>		
Purchase of Capital Assets	(43,303)	-
<b>Cash Flows from Investing Activities</b>		
Interest received	-	33
	-	33
Net (decrease) increase in cash and cash equivalents	(9,548)	198,576
Cash and cash equivalents - beginning of year	216,505	17,929
	216,505	17,929
Cash and cash equivalents - end of year	\$ 206,957	\$ 216,505

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

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**KNOXVILLE-KNOX COUNTY  
ANIMAL CENTER**

**COMPARATIVE STATEMENTS OF CASH FLOWS - (Continued)  
For the Years Ended June 30, 2009 and June 30, 2008**

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**Reconciliation of Operating Loss to  
Net Cash Used in Operating Activities**

	<u>2009</u>	<u>2008</u>
Operating loss	\$ (1,305,515)	\$(1,259,912)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	46,328	46,328
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	1,426	95,748
(Increase) decrease in inventory	(20,827)	(5,654)
(Increase) decrease in prepaid items	(27,084)	-
Increase (decrease) in accounts payable	(4,025)	(25,679)
Increase (decrease) in accrued payroll payable	2,195	17,641
Increase (decrease) in compensated absences payable	14,877	3,691
Net cash used in operating activities	<u>\$ (1,292,625)</u>	<u>\$(1,127,837)</u>

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

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**KNOXVILLE-KNOX COUNTY  
ANIMAL CENTER**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2009 and June 30, 2008**

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

**A. Reporting Entity**

The Knoxville-Knox County Animal Center (the “Center”) was established by the Knoxville-Knox County Animal Center Board as a not-for-profit corporation established under a joint cooperation agreement between the City of Knoxville and Knox County, Tennessee to administer the service delivery system for the care of animals. The Board consists of eleven members appointed by the Mayor of the City, the County Mayor, the County Commission, and the Knoxville Academy of Veterinary Medicine. The Center commenced operations on January 1, 2001. The Center’s operations are primarily funded by the City of Knoxville and Knox County.

**B. Basis of Accounting**

The financial statements of the Center are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

The Center applies Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. The Center has elected not to adopt the Financial Accounting Standards Board statements and interpretations issued after November 30, 1989, in accordance with Governmental Accounting Standards Board Statement No. 20, “*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*”.

Additionally, proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the Center are user service fees: adoption fees, adopt-a-pet adoption fees, boarding/impound fees, and other miscellaneous revenue. Operating expenses for proprietary funds include the cost of sales and services such as personal services, employee benefits, contracted services, supplies and materials, and other charges. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the System’s policy to use restricted resources first and then unrestricted resources, as they are needed.

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**KNOXVILLE-KNOX COUNTY  
ANIMAL CENTER**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30, 2009 and June 30, 2008**

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Assets, Liabilities, and Net Assets**

1. Deposits and Investments

The Center's cash and cash equivalents are considered to be demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Center's cash and cash equivalents are pooled and managed by the Trustee of Knox County. State Statutes authorize the Center to invest in obligations of the federal government, State of Tennessee, U.S. governmental agencies, the State of Tennessee Local Government Investment Pool, certificates of deposit and repurchase agreements. All investments are stated at cost or amortized cost.

Tennessee Code Annotated Section 5-8-201 requires financial institutions to secure the Center's deposits by pledging governmental securities as collateral. The market value of pledged securities must equal at least 105 percent of the average daily balance of deposits.

2. Receivables and Payables

All trade and subsidy receivables and payables are recognized when incurred and recorded at full value. Any amounts later determined to be uncollectible are written off when that determination is made. Management does not believe an allowance for doubtful accounts is necessary.

3. Inventory

Inventory consists of veterinary medicine and medical supplies and is stated at the lower of cost or market. Inventory is accounted for under the consumption method. The Center uses the first-in, first-out (FIFO) flow assumption in determining costs.

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**KNOXVILLE-KNOX COUNTY  
ANIMAL CENTER**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30, 2009 and June 30, 2008**

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Assets, Liabilities, and Net Assets (Continued)**

4. Capital Assets

Capital assets are defined as assets with an initial, individual cost of more than \$5,000 (amount not rounded). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at estimated fair market value at the date of donation. The capital assets are depreciated using the straight-line method over the asset's estimated useful life.

Maintenance and repairs are charged to operations as incurred; major renewals and betterments are capitalized. When property or equipment is sold, the related costs and accumulated depreciation are removed from the respective accounts, and any gain or loss is credited or charged to operations.

5. Compensated Absences

It is the Center's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since it is the Center's policy that, upon separation or retirement, employees do not receive any payment for unused sick time. Vacation pay is accrued when earned by Center employees.

Employees may accumulate vacation leave according to the following schedule:

<u>Years of Service</u>	<u>Maximum Accrual</u>
0-8	36 days
9-20	39 days
21 and greater	42 days

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**KNOXVILLE-KNOX COUNTY  
ANIMAL CENTER**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30, 2009 and June 30, 2008**

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Assets, Liabilities, and Net Assets (Continued)**

6. Fee Income

Adoption and boarding/impounding service fees are recognized as income when collected. Fees are payable in full at the time that services are provided.

7. Estimates

The preparation of financial statements in accordance 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 may differ from these estimates.

**NOTE 2: BUDGETARY INFORMATION**

As required by State Statutes, the Center adopts an annual operating budget. The budget proposal is prepared by the Executive Director of the Center and approved by the Board. The appropriated budget is prepared by division and major category. Expenditures cannot exceed a major category within a division without an amendment to the budget approved by the Board.

The Center utilizes encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances outstanding at year-end are not reported as expenditures or liabilities because the commitments will be honored in the subsequent year. Outstanding encumbrances are re-appropriated in the subsequent year. There were not any recorded encumbrances for the current fiscal year. Encumbrances at June 30, 2008 were \$21,980. These encumbrances are related primarily to the purchase of a new vehicle for the Center's operations.

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**KNOXVILLE-KNOX COUNTY  
ANIMAL CENTER**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30, 2009 and June 30, 2008**

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**NOTE 3: DEPOSITS AND INVESTMENTS**

The Center's cash and cash equivalents; pooled and managed by the Trustee of Knox County at June 30, 2009 and June 30, 2008, were covered by the bank collateral pool administered by the Treasurer of the State of Tennessee. Banks participating in the collateral pool determine the aggregate balance of their public fund accounts for the Center. The amount of collateral required to secure these deposits must equal 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be entirely insured or collateralized.

**NOTE 4: DEFERRED COMPENSATION PLAN**

The Center provides the opportunity for each of its employees to participate in a deferred compensation plan created in accordance with Internal Revenue Service Code Section 457. Under this plan, employees may elect to reduce their salary by at least \$20 per month, in tax-deferred savings to supplement retirement income. The deferred compensation is generally not available to employees or their beneficiaries until termination, retirement, death or unforeseeable emergency.

The assets of the deferred compensation plan are held in trust for the exclusive benefit of participants and their beneficiaries and are not reflected as an asset or liability of the Center.

**NOTE 5: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Land Improvements	\$ -	\$ 16,904	\$ -	\$ 16,904
Equipment	-	6,958	-	6,958
Vehicle	246,443	19,441	-	265,884
Total Capital Assets	<u>246,443</u>	<u>43,303</u>	<u>-</u>	<u>289,746</u>
Less accumulated depreciation for:				
Vehicle	<u>(61,131)</u>	<u>(46,328)</u>	<u>-</u>	<u>(107,459)</u>
Total capital assets, net	<u>\$ 185,312</u>	<u>\$ (3,025)</u>	<u>\$ -</u>	<u>\$ 182,287</u>

**KNOXVILLE-KNOX COUNTY  
ANIMAL CENTER**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30, 2009 and June 30, 2008**

**NOTE 5: CAPITAL ASSETS (Continued)**

Capital asset activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Vehicle	\$ 246,443	\$ -	\$ -	\$ 246,443
Less accumulated depreciation for:				
Vehicle	(14,803)	(46,328)	-	(61,131)
Total capital assets, net	<u>\$ 231,640</u>	<u>\$ (46,328)</u>	<u>\$ -</u>	<u>\$ 185,312</u>

**NOTE 6: LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Compensated absences	\$ 43,597	\$ 17,755	\$ 2,878	\$ 58,474	\$ 52,626

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Compensated absences	\$ 39,906	\$ 6,070	\$ 2,379	\$ 43,597	\$ 39,237

**KNOXVILLE-KNOX COUNTY  
ANIMAL CENTER**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30, 2009 and June 30, 2008**

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**NOTE 7: NET ASSETS**

The unrestricted net assets amount for the year ended June 30, 2009 reported on the Comparative Statements of Net Assets is comprised of the following:

	<u>Amount</u>
Designated for prepaid items	\$ 27,084
Designated for inventory	92,551
Designated for various programs	2,580
Undesignated	<u>94,165</u>
Total	<u><u>\$ 216,380</u></u>

The unrestricted net assets amount for the year ended June 30, 2008 reported on the Comparative Statements of Net Assets is comprised of the following:

	<u>Amount</u>
Designated for prior year encumbrance	\$ 21,980
Designated for inventory	71,724
Designated for various programs	6,150
Undesignated	<u>92,636</u>
Total	<u><u>\$ 192,490</u></u>

**NOTE 8: RELATED PARTY TRANSACTIONS**

The City of Knoxville and Knox County provided funding to the Center of \$663,190 and \$663,190, respectively; representing approximately 53 percent of total revenues for the year ended June 30, 2009. The City of Knoxville and Knox County provide the same amount of funding in the previous year, representing approximately 61 percent of the total revenues for the year ended June 30, 2008.

**KNOXVILLE-KNOX COUNTY  
ANIMAL CENTER**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)  
June 30, 2009 and June 30, 2008**

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**NOTE 8: RELATED PARTY TRANSACTIONS (Continued)**

All of the capital assets used by the Center are capital assets of both the City of Knoxville and Knox County. The County leases the real property to the Center. The initial term of the lease is for twenty years, which commenced on December 11, 2000. The lease may be extended for up to two additional lease terms of ten years per extension. The total annual rent for each year of the initial term is one dollar (\$1.00). The Lessee is responsible for payment of taxes, insurances and utilities.

**NOTE 9: RETIREMENT PLANS**

Certain employees of the Center are allowed to individually participate in the County's defined contribution plan (asset accumulation plan). The plan covers full-time Center employees. Plan benefits depend solely on amounts contributed to the plan plus investment earnings. Center employees are eligible to participate from their employment date. Employees are required to contribute six percent but may contribute up to fifteen percent of compensation and the Center will match these contributions up to six percent of compensation. During fiscal years 2009 and 2008, the employer contributions amounted to \$69,523 and \$63,295, respectively. The Center's contributions to the plan vest at twenty percent per year and are fully vested after five years. A description of the significant accounting policies used in the plan is described in the *Knox County Comprehensive Annual Financial Report (CAFR)* for the fiscal year ended June 30, 2009.

**NOTE 10: RISK FINANCING**

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Center purchases General Liability, Workers Compensation, and Property Insurance from outside vendors. Liabilities are recorded when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation and recent claim settlements. During the year 2009, no charges or liabilities have been established for the Center. Settlements have not exceeded coverage in the past three fiscal years.

## ANIMAL CENTER

### NOTES TO THE FINANCIAL STATEMENTS (Continued) June 30, 2009 and June 30, 2008

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#### **NOTE 11: MOBILE SPAY/NEUTER CLINIC**

In the fiscal year 2006, the Animal Center was awarded a grant for the Center's new Spay/Neuter Program. The grant is for a five year period that started in fiscal year 2007. Under this grant, the Center will have a Mobile Spay/Neuter Clinic (the "Clinic"). The Clinic's mobile unit is fully equipped with operating tables, medical supplies, and other equipment to perform over 6,000 spay/neuter surgeries a year at no cost to the residents. The Clinic will target low-income, high density areas of the community.

This grant also allows for residents outside the areas where the Clinic will travel to be referred to private veterinarians to perform the surgery at no cost to the resident. That program was operated by Peaceful Kingdom. This program was absorbed by the Animal Center's Spay/Neuter Program. Spay/Neuter surgeries are reimbursed to the veterinarians at a pre-determined discounted rate. The total estimated cost of this grant is \$3,058,913 over five years. The Clinic is now operating everyday and has performed close to 12,000 surgeries since the Clinic's inception.

In the 2009 fiscal year, the Clinic received \$555,784 in grant revenue, and incurred \$612,266 in expenses. In the fiscal year of 2008, the Clinic received \$306,130 in grant revenue, and incurred \$290,053.

#### **NOTE 12: RECLASSIFICATIONS**

Certain reclassifications have been made to prior year balances to conform to the current year's financial statement presentation.

**SUPPLEMENTARY  
INFORMATION**

**KNOXVILLE-KNOX COUNTY  
ANIMAL CENTER**

**COMPARATIVE SCHEDULES OF REVENUES AND EXPENSES AND CHANGES  
IN NET ASSETS - BUDGET TO ACTUAL (Budget Basis) (Unaudited)  
For the Years Ended June 30, 2009 and June 30, 2008**

	2009					2008				
	Original Budget	Budget Revisions	Revised Budget	Actual	Variance Favorable (Unfavorable)	Original Budget	Budget Revisions	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>										
Operating:										
Adoption fees	\$ 309,000	\$ -	\$ 309,000	\$ 315,103	\$ 6,103	\$ 246,000	\$ -	\$ 246,000	\$ 341,388	\$ 95,388
Boarding/impound fees	39,936	-	39,936	50,436	10,500	45,000	-	45,000	42,755	(2,245)
Sale of City Tags	330	1,660	1,990	2,325	335	244	1,240	1,484	1,245	(239)
Miscellaneous	12,000	-	12,000	18,896	6,896	3,306	-	3,306	-	(3,306)
Other Governments & Citizens groups	663,944	66,602	730,546	810,809	80,263	633,944	60,365	694,309	473,626	(220,683)
Nonoperating:										
Knox County Subsidy	663,190	-	663,190	663,190	-	663,190	-	663,190	663,190	-
City of Knoxville Subsidy	663,190	-	663,190	663,190	-	663,190	-	663,190	663,190	-
Interest income	-	-	-	-	-	-	-	-	33	33
Appropriations from Fund Balance	21,684	86,130	107,814	-	(107,814)	-	13,564	13,564	-	(13,564)
<b>Total revenues</b>	<b>2,373,274</b>	<b>154,392</b>	<b>2,527,666</b>	<b>2,523,949</b>	<b>(3,717)</b>	<b>2,254,874</b>	<b>75,169</b>	<b>2,330,043</b>	<b>2,185,427</b>	<b>(144,616)</b>
<b>EXPENSES</b>										
Operating:										
Personal services	1,136,861	171,615	1,308,476	1,308,446	30	1,093,392	2,276	1,095,668	1,068,575	27,093
Employee benefits	408,281	30,200	438,481	438,329	152	353,334	11,451	364,785	338,452	26,333
Contracted services	266,978	(65,751)	201,227	197,794	3,433	254,395	(27,336)	227,059	157,399	69,660
Supplies and materials	496,705	(16,974)	479,731	467,891	11,840	507,269	(13,290)	493,979	419,558	74,421
Other charges	64,449	35,302	99,751	90,624	9,127	46,484	102,068	148,552	134,942	13,610
<b>Total expenses</b>	<b>2,373,274</b>	<b>154,392</b>	<b>2,527,666</b>	<b>2,503,084</b>	<b>24,582</b>	<b>2,254,874</b>	<b>75,169</b>	<b>2,330,043</b>	<b>2,118,926</b>	<b>211,117</b>
<b>Increase in net assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 20,865</b>	<b>\$ 20,865</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 66,501</b>	<b>\$ 66,501</b>

**INTERNAL CONTROL  
AND COMPLIANCE SECTION**



**KPMG LLP**  
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Nashville, TN 37219-2422

**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***

The Board of Directors  
Knoxville – Knox County Animal Center:

We have audited the financial statements of Knoxville – Knox County Animal Center (the Center), as of and for the year ended June 30, 2009, and have issued our report thereon dated December 18, 2009. 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**

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

A deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting, 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Center'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 18, 2009