

BLOUNT COUNTY CHILDREN'S HOME
Maryville, Tennessee

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2011

BLOUNT COUNTY CHILDREN'S HOME
Maryville, Tennessee

INTRODUCTORY SECTION

For the Fiscal Year Ended June 30, 2011

BLOUNT COUNTY CHILDREN'S HOME
Maryville, Tennessee
June 30, 2011

TABLE OF CONTENTS

	Page
INTRODUCTORY SECTION	
Title Page and List of Principal Officials	1
Letter of Transmittal	2 – 3
FINANCIAL SECTION	
Independent Auditors' Report.....	4 – 5
Management's Discussion and Analysis	6 – 8
Basic Financial Statements	
Combined Government-wide and Fund Financial Statements:	
Statement of Net Assets and Government Funds Balance Sheet	9
Statement of Activities and Government Fund Statement of Revenues, Expenditures, and Changes in Net Assets	10
Budgetary Comparison Statement – General Fund.....	11 – 11
Notes to Basic Financial Statements	12 – 22
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	23 – 24
Schedule of Findings	25

BLOUNT COUNTY CHILDREN'S HOME
Maryville, Tennessee
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2011

ROSTER OF MANAGEMENT AND BOARD MEMBERS

Director (Interim)

Claudia Brady

Board Members:

Chairman
Vice Chair
Treasurer
Secretary

Jim Watson
Terry Elmore
Lynn Waters
Denette N. Flynn

Other Board Members:

Pam Bain
Tonya Burchfield
Debbie Dunn
David Dwyer
Mark Hasty

Jim Hill
Elizabeth (Beth) Little
Robin McDaniel
James Snyder
John Weston, Jr.



BLOUNT COUNTY CHILDREN'S HOME
903 McCammon Avenue Maryville, TN 37801
Phone: (865) 681-6323 Fax: (865) 977-6807

November 2, 2011

To the County Mayor,
Members of the Board of Commissioners,
Board of Directors, and Citizens of
Blount County, Tennessee

Annual Financial Report

The annual financial report of the Blount County Children's Home (a component unit of Blount County, Tennessee) for the fiscal year ended June 30, 2011, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Home's management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Home. All disclosures necessary to enable the reader to gain an understanding of the Home's financial activities have been included.

The annual financial report is presented in two sections: introductory and financial. The Introductory section includes this transmittal letter and list of official management and board members. The financial section includes the report of the independent auditors, the management discussion and analysis, the basic financial statements and required supplemental information.

The Blount County Children's Home was established in 1894 and subsequently became a component unit of Blount County in 1983. The Home is governed by a twelve (12) member Board of Directors. The Home's Board employs directors and staff to conduct the daily business of the organization.

Fund Descriptions

The accounts of the Home are organized on the basis of funds, each of which is considered a separate accounting entity. The operation of the funds is accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, equity, revenues, and, as applicable, expenditures and expenses. The individual funds account for the governmental resources allocated to them for the purpose of carrying on specific activities in accordance with special regulations, restrictions, or limitations. The funds used by the Home are as follows:

Governmental funds – These funds are used to account for the program and activities of the governmental functions of the Home.

General Fund: This fund serves as the general operating fund of the Home. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds: These funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Annual Financial Report (Continued)

Governmental funds (Continued)

The funds are further classified as major and nonmajor. Major funds are determined by a percentage of assets, liabilities, revenues, or expenditures/expenses in relation to the totals of all funds in those categories. The General Fund will always be considered major and all other were considered to be major funds.

Risk Management

The Home acquires commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, workers compensation, and health insurance. All full-time employees are provided with traditional health care insurance that covers hospitalization and major medical expenses within specified limits. Employees are also provided life insurance and disability insurance. In addition, employees contribute to a Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) plan with a matching share being contributed by the employer.

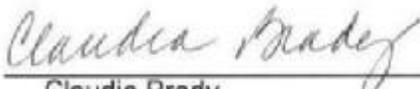
Cash Management

At the end of the fiscal year, June 30, 2011, the Home has \$103,384 in bank checking accounts, savings accounts, and certificates of deposit.

Acknowledgements

The employees of the Blount County Children's Home are its most valuable asset. They continuously provide quality services to the clients of the Home. It is to these committed individuals that this document is dedicated.

Respectively submitted,



Claudia Brady
Director (Interim)



Joe S. Ingram, CPA
Lonas D. Overholt, CPA
Robert L. Bean, CPA

428 Marilyn Lane
Alcoa, Tennessee 37701

Telephone
865-984-1040
Facsimile
865-982-1665

November 2, 2011

INDEPENDENT AUDITORS' REPORT

Board of Directors
Blount County Children's Home
Maryville, Tennessee

We have audited the accompanying financial statements of the governmental activities and each major fund, as listed in the Table of Contents, of the Blount County Children's Home (a component unit of Blount County, Tennessee) as of June 30, 2011, and for the fiscal year then ended. These financial statements are the responsibility of the Blount County Children's Home'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 respective financial position of the governmental activities and each major fund of the Blount County Children's Home as of June 30, 2011 and the respective changes in financial position of the governmental activities and each major fund and the respective budgetary comparison for the General Fund for the fiscal 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 November 2, 2011, on our consideration of the Blount County Children's Home's internal control over financial reporting and 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 Management's Discussion and Analysis on pages 6 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

Ingram, Overholt & Bean, P.C.



BLOUNT COUNTY CHILDREN'S HOME
 903 McCammon Avenue Maryville, TN 37801
 Phone: (865) 681-6323 Fax: (865) 977-6807

November 2, 2011

Our discussion and analysis of the Blount County Children's Home's financial performance provides an overview of the Home's activities for the year ended June 30, 2011. Please read it in conjunction with the transmittal letter and the Home's financial statements as described in the Table of Contents.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the Home as a whole and present a long-term view of the Home's finances.

THE STATEMENT OF NET ASSETS AND THE STATEMENT OF ACTIVITIES

One of the most important questions asked about the Home's finances is "Is the Home better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Home and about its activities that help answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the Home's net assets and changes in them. You can think of the Home's net assets – the difference between assets and liabilities – as one way to measure the Home's financial health, or financial position. Over time, increases or decreases in the Home's net assets are one indicator of whether its financial health is improving or deteriorating.

FINANCIAL HIGHLIGHTS

The operations of the Blount County Children's Home (a component unit of Blount County, Tennessee) are primarily funded as follows:

Intergovernmental	11.31%
Program income	51.77%
Contributions, Fundraising and Miscellaneous	29.57%
Interest Income	<u>7.35%</u>
Total funding	<u>100.00%</u>

Operational costs for the Home were \$97,217 and \$260,049 fiscal years ended June 30, 2011 and 2010, respectively. The 62.6% decrease was chiefly the result of a reduction in corresponding state revenue.

NET ASSETS

The analysis below focuses on the net assets and changes in net assets of the Home:

	<u>2011</u>	<u>2010</u>
Current assets	\$ 103,729	\$ 156,843
Capital assets, net	<u>232,054</u>	<u>242,697</u>
Total Assets	<u>335,783</u>	<u>399,540</u>
Current liabilities	<u>178</u>	<u>3,658</u>
Total Liabilities	<u>178</u>	<u>3,658</u>
Net Assets:		
Invested in capital assets	232,054	242,697
Unrestricted	<u>103,551</u>	<u>153,184</u>
Total Net Assets	<u>335,605</u>	<u>395,882</u>

Net assets of the Home decreased 15.2% during the current year. Unrestricted net assets, the part of the net assets that can be used to finance day-to-day operations, decreased by 32.4% during the current year.

Analysis of Changes in Net Assets

The Home's net assets decreased by \$60,277 for the fiscal year 2011. The change is explained below:

	<u>2011</u>	<u>2010</u>
<u>Revenues</u>		
Intergovernmental	\$ 5,384	\$ 68,280
Program Income	24,633	28,233
Donations and fundraising	14,071	109,784
Interest income	<u>3,496</u>	<u>6,308</u>
Total Revenues	<u>47,584</u>	<u>212,605</u>
<u>Expenses</u>		
Home operating expenses	96,768	260,049
Fund raising expenses	449	-
Depreciation	<u>10,644</u>	<u>10,364</u>
Total Expenses	<u>107,861</u>	<u>270,413</u>
Change in net assets	(60,277)	(57,808)
Net assets at beginning of year	<u>395,882</u>	<u>453,690</u>
Net assets at end of year	<u>\$ 335,605</u>	<u>\$ 395,882</u>

(Continued)

FINANCIAL RATIOS

The ratios of Working Capital and Days Cash demonstrate the continuing ability to finance operations with cash. The stability of the current ratio and the liabilities to net assets ratio demonstrate that the Home has not financed its working capital and days cash with an increased proportion of debt. The following is a related schedule of ratios:

	<u>2011</u>	<u>2010</u>
Working Capital (the amount by which current assets exceed liabilities)	\$ 103,551	\$ 153,185
Current Ratio (compares current assets to liabilities – as an indicator of the ability to pay current obligations)	582.75	42.86
Days Cash and Investments (represents the number of days normal operations could continue with no revenue collections)	388 days	204 days
Return on Assets – illustrates to what extent there will be sufficient funds to replace assets in the future	(18.34%)	(12.78%)

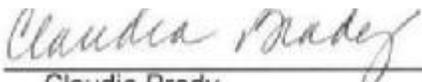
CAPITAL ASSETS

At the fiscal year ended June 30, 2011, the Home had \$232,054 invested in capital assets as outlined below (a 0.0439% decrease from the last year):

	<u>2011</u>	<u>2010</u>
Buildings and improvements	\$ 773,349	\$ 773,349
Equipment	132,572	183,754
Furniture and fixtures	<u>43,911</u>	<u>43,911</u>
	949,832	1,001,014
Less: Accumulated depreciation	<u>(717,778)</u>	<u>(758,317)</u>
Totals	<u>\$ 232,054</u>	<u>\$ 242,697</u>

CONTACTING THE HOME'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens with a general view of the Home's finances and to show the Home's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Director of the Blount County Children's Home, 903 McCammon Avenue, Maryville, TN 37801.


 Claudia Brady
 Director (Interim)

BLOUNT COUNTY CHILDREN'S HOME
Maryville, Tennessee
COMBINED GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS AND GOVERNMENT FUNDS BALANCE SHEET
June 30, 2011

<u>ASSETS</u>	Governmental Funds <u>General Fund</u>	<u>Adjustments</u>	Statement of <u>Net Assets</u>
Cash in bank – Checking and Savings.....	\$ 103,384	\$ -	\$ 103,384
Accounts receivable	345	-	345
Capital assets, net of accumulated depreciation	<u>-</u>	<u>232,054 (1)</u>	<u>232,054</u>
Total Assets	<u>\$ 103,729</u>	<u>232,054</u>	<u>335,783</u>
<u>LIABILITIES AND FUND BALANCES</u>			
CURRENT LIABILITIES:			
Accounts payable.....	\$ 178	-	178
FUND BALANCES:			
Unassigned	<u>103,551</u>	<u>(103,551) (2)</u>	<u>-</u>
Total Fund Balances.....	<u>103,551</u>	<u>(103,551) (2)</u>	<u>-</u>
Total Liabilities and Fund Balances.....	<u>\$ 103,729</u>	(103,729)	178
NET ASSETS:			
Invested in capital assets		232,054 (2)	232,054
Unrestricted.....		<u>103,551 (2)</u>	<u>103,551</u>
Total Net Assets		<u>\$ 335,605</u>	<u>\$ 335,605</u>

Amounts reported for governmental activities in the Statement of Net Assets are different because:

- (1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$717,778.
- (2) Equity is reported as Net Assets in government-wide financial statements and as fund balance in fund financial statements.

See accompanying independent auditors' report and notes.

BLOUNT COUNTY CHILDREN'S HOME
Maryville, Tennessee
COMBINED GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
STATEMENT OF ACTIVITIES AND GOVERNMENT FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2011

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
REVENUES:			
Intergovernmental	\$ 5,384	\$ -	\$ 5,384
Program income	24,633	-	24,633
Donations and fundraising.....	14,071	-	14,071
Interest income.....	<u>3,496</u>	<u>-</u>	<u>3,496</u>
Total Revenues	<u>47,584</u>	<u>-</u>	<u>47,584</u>
EXPENDITURES:			
Home Operating Expenses	<u>97,217</u>	<u>10,644 (1)</u>	<u>107,861</u>
Excess (Deficiency) of Revenues over Expenditures...	(49,633)	(10,644)	(60,277)
 NET ASSETS – Beginning of the Year.....	 <u>153,184</u>	 <u>242,698</u>	 <u>395,882</u>
 NET ASSETS – End of the Year	 <u>\$ 103,551</u>	 <u>\$232,054</u>	 <u>\$ 335,605</u>

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds do not report depreciation as expenditures, while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

- (1) Depreciation expense

See accompanying independent auditors' report and notes.

BLOUNT COUNTY CHILDREN'S HOME
Maryville, Tennessee
UNRESTRICTED – GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – COMPARED TO BUDGET
For the Fiscal Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget - Favorable <u>(Unfavorable)</u>
REVENUES:				
Intergovernmental:				
State of Tennessee contracts	\$ -	\$ -	\$ -	\$ -
Blount County – Nonexpendable				
Trust Fund Interest	8,500	8,500	5,384	(3,116)
Program income:				
Gardner Place	42,000	42,000	21,058	(20,942)
Kick Nic	3,000	3,000	1,150	(1,850)
Client fees	4,750	4,750	2,385	(2,365)
Donations and Fund-raising:				
Fund-raising	-	-	3,568	3,568
Private donations (Business & Individuals)	10,532	10,532	2,871	(7,661)
Business and corporate grants	2,500	2,500	120	(2,380)
Gross rents revenue	8,000	8,000	6,115	(1,885)
Interest income	5,100	5,100	3,496	(1,604)
Miscellaneous	101	101	1,437	1,336
Total Revenues	<u>84,483</u>	<u>84,483</u>	<u>47,584</u>	<u>(36,899)</u>
EXPENDITURES:				
Home Operating Expenses:				
Salaries and contract labor	48,560	48,560	51,078	(2,518)
Payroll taxes	2,921	2,921	3,683	(762)
Telephone and web hosting	2,746	2,746	2,660	86
Vehicle (Transportation)	340	340	340	-
Insurance – Company	5,966	5,966	12,093	(6,127)
Supplies	275	275	343	(68)
Building repairs, renovations, and maintenance	4,995	4,995	5,235	(240)
Utilities	10,710	10,710	13,256	(2,546)
Office supplies and expense	1,651	1,651	1,429	222
Legal and professional	3,052	3,052	3,052	-
Miscellaneous	3,267	3,267	3,599	(332)
Fund raising expense	-	-	449	(449)
Total Home Operating Expenses	<u>84,483</u>	<u>84,483</u>	<u>97,217</u>	<u>(12,734)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	-	-	(49,633)	(49,633)
FUND BALANCE Unassigned – Beginning of the Year				
	<u>209,106</u>	<u>209,106</u>	<u>153,184</u>	<u>(55,922)</u>
FUND BALANCE Unassigned – End of the Year				
	<u>\$ 209,106</u>	<u>\$ 206,106</u>	<u>\$ 103,551</u>	<u>\$ (105,555)</u>

BLOUNT COUNTY CHILDREN'S HOME
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

INDEX

	Page No.
NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	
A. Financial Reporting Entity	13
B. Basis of Presentation	13
C. Measurement Focus and Basis of Accounting	14
D. Assets, Liabilities, and Equity	15
E. Revenues, Expenditures, and Expenses	17
F. Budgetary Accounting	18
G. Use of Estimates	18
H. Fund Balances	18
NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY	
A. Fund Accounting Requirements	19
B. Deposits and Investments laws and Regulations	19
C. Fund Equity Restrictions	19
NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS	
A. Cash and Investments	20
B. Accounts Receivable	20
C. Capital Assets	21
D. Accrued Expenses	21
NOTE 4. OTHER NOTES	
A. Retirement Benefits	21
B. Risk Financing Activities	22
C. Commitments, Contingencies and Concentrations	22

BLOUNT COUNTY CHILDREN'S HOME
Maryville, Tennessee
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Home complies with accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

A. FINANCIAL REPORTING ENTITY

The Blount County Children's Home, chartered as a Tennessee non-profit corporation, is a component unit (as defined in GASB) of Blount County, Tennessee. The County approves all Board members and has financial accountability for the Home. Blount County maintains an endowment fund (permanent fund of the County) for which interest earnings are paid to the Home annually.

B. BASIS OF PRESENTATION

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. An emphasis is placed on major funds. A fund is considered major if it is the primary operating fund of the Home or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined.
- c. Any fund which government officials believe is important. The Home considers all funds as major funds.

The funds of the financial reporting entity are described below:

BLOUNT COUNTY CHILDREN'S HOME
Maryville, Tennessee
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF PRESENTATION (Continued)

Governmental Funds

General Fund

The General Fund is the primary operating fund of the Home and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

Major and Nonmajor Funds

The funds are further classified as major or non-major as follows:

<u>Major Fund:</u>	<u>Brief Description</u>
General	It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

(Continued)

BLOUNT COUNTY CHILDREN'S HOME
Maryville, Tennessee
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for note principal and interest which are reported when due.

D. ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

For the purpose of the Statement of Net Assets, cash includes all demand, savings accounts, and certificates of deposits of the Home.

Investments are carried at fair value. Fair value is based on quoted market price.

Interfund Receivables and Payables

During the course of operations, transactions may occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Receivable balances for the governmental activities include amounts due from the State of Tennessee.

In the fund financial statements, material receivables in governmental funds include intergovernmental revenues since they are both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual but not deferred in the government-wide financial statements in accordance with the accrual basis. There were no nonexchange transactions as

(Continued)

BLOUNT COUNTY CHILDREN'S HOME
Maryville, Tennessee
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, AND EQUITY (Continued)

Receivables (Continued)

of June 30, 2011. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available.

Fixed Assets

The accounting treatment used for property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to June 30, 2003.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. This range of estimated useful lives by type of assets is as follows:

Buildings	25 – 50 years
Improvements	10 – 50 years
Machinery and Equipment	03 – 20 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Compensated Absences

Annual Leave

Full-time employees receive annual leave from the first month of employment at 5/6 day per month. Accrued time is lost if the employee resigns or is terminated before the first six-month period of employment is completed. The 5/6 day per month accrual is effective through year five (5) of employment. In years six (6) through fifteen (15), annual leave accrues at a rate of 1-1/4 days per month. In years sixteen (16) and beyond, the employee earns 1-2/3 days per month.

Sick Leave

All full-time employees will be allowed six (6) days per year with full pay.

BLOUNT COUNTY CHILDREN'S HOME
Maryville, Tennessee
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES, AND EQUITY (Continued)

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated.

E. REVENUES, EXPENDITURES, AND EXPENSES

Revenues and Expenses

Revenues and expenses include all items not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for governmental activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds – By Character:	Current (further classified by function)
	Debt Service
	Capital Outlay

In the fund financial statements, governmental funds report expenditures of financial resources.

(Continued)

BLOUNT COUNTY CHILDREN'S HOME
Maryville, Tennessee
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. REVENUES, EXPENDITURES, AND EXPENSES (Continued)

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

F. BUDGETARY ACCOUNTING

The Children's Home maintains budgetary controls which are designed to ensure compliance with budgetary and legal provisions embodied in the annually appropriated operating budget approved by the Board of Directors. All operating activities are included in the annual appropriated operating budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is the total operating budget, as adopted by the Board of Directors. However, for budget administrative purposes, the Children's Home maintains budgeting controls at department appropriation levels. As demonstrated by the statements and schedules included in the financial section of this report, the Children's Home continues to meet its' responsibility for sound financial management.

G. USE OF 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. FUND BALANCES

Governmental fund equity is classified as fund balance. During the year ended June 30, 2011, the Home implemented Governmental Accounting Standards Board (GASB) Statement 54, *Fund Balance and Government Fund Type Definitions*. Under this statement fund balances are classified into the following categories:

- a. Nonspendable fund balances comprise those amounts that are legally or contractually required to be maintained intact.
- b. Restricted fund balances comprise those amounts constrained to be used for a specific purpose by external parties, constitution provisions or enabling legislation.
- c. Committed fund balances comprise those amounts constrained by the Home itself using its highest level of governing body (Board) using its highest level of authority.

(Continued)

BLOUNT COUNTY CHILDREN'S HOME
Maryville, Tennessee
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. FUND BALANCES (Continued)

- d. Assigned fund balances are amounts intended to be used for a specific purpose by the governing body through action other than the highest level of authority or an official expressly authorized by the governing body.
- e. Unassigned fund balances are any amounts other than those described above and are available for any purpose.

The Home has no formal policy with regard to classifying expenditures among the various classifications. Thus, the default provision under GASB Statement 54 apply expenditures first to restricted resources, then to committed resources, then to assigned resources, and finally to unassigned resources. No Home official is granted the authority to assign fund balance. In addition, the Home has no formal policy with regard to stabilization funds.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local governmental component unit, the Home is subject to various federal, state, and local laws and contractual regulations. An analysis of the Home's compliance with significant laws and regulations and demonstration of its stewardship over the Home resources follows:

A. FUND ACCOUNTING REQUIREMENTS

The Home complies with all state and local laws and regulations requiring the use of separate funds. There are no legally required funds used by the Home.

B. DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS

In accordance with state law, all deposits of government funds in financial institutions must be federally insured or secured with acceptable collateral.

C. FUND EQUITY RESTRICTIONS

Deficit Prohibition

State of Tennessee Statutes prohibits the creation of a deficit fund balance in any individual fund.

(Continued)

BLOUNT COUNTY CHILDREN'S HOME
 Maryville, Tennessee
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2011

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues and expenditures/expenses.

A. CASH AND INVESTMENTS

In accordance with the Board of Directors' approval, the Blount County Children's Home maintains a checking account to handle the day-to-day operations. Savings accounts, Certificates of Deposit, and investments are Board-authorized for restricted funds, and excess funds of the Home are placed in insured accounts.

Investments are carried at fair value.

The carrying amount of the Home's cash deposits and investments at June 30, 2011, is summarized as follows:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Carrying Amount</u>
Checking and Savings Accounts:			
GreenBank Checking	Varies		\$ 514
GreenBank Checking	Varies		201
GreenBank Savings	Varies		<u>102,619</u>
Total Checking Accounts			<u>103,334</u>
Petty Cash			<u>50</u>
Total Cash			<u>\$ 103,384</u>

All accounts are fully insured by FDIC Insurance coverage of \$250,000, with any excesses being collateralized by the Tennessee Bank Collateral Pool.

B. ACCOUNTS RECEIVABLE

State of Tennessee

The Blount County Children's Home contracts with the State of Tennessee to provide supervised visitation/counseling care/treatment of children at a specified reimbursement rate. The amount due from the State at June 30, 2011 amounts to \$0.

(Continued)

BLOUNT COUNTY CHILDREN'S HOME
Maryville, Tennessee
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

C. CAPITAL ASSETS

Capital asset activities for the year ended June 30, 2011 was as follows:

	<u>Balance at July 1, 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2011</u>
Governmental activities:				
Buildings and improvements	\$ 773,349	\$ -	\$ -	\$ 773,349
Equipment	183,754	-	(51,182)	132,572
Furniture and fixtures	43,911	-	-	43,911
Totals at historical cost	<u>1,001,014</u>	<u>-</u>	<u>(51,182)</u>	<u>949,832</u>
Less accumulated depreciation:				
Buildings and improvements	(546,982)	(7,240)	-	(554,222)
Equipment	(172,389)	(2,471)	51,182	(123,678)
Furniture and fixtures	<u>(38,945)</u>	<u>(933)</u>	<u>-</u>	<u>(39,878)</u>
Total accumulated depreciation	<u>(758,316)</u>	<u>(10,644)</u>	<u>51,182</u>	<u>(717,778)</u>
Governmental activities				
Capital assets, net	<u>\$ 242,698</u>	<u>\$ (10,644)</u>	<u>\$ -</u>	<u>\$ 232,054</u>

Depreciation expense was charged to governmental activities as follows:

Children's Home	<u>\$ 10,644</u>
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D. ACCRUED EXPENSES

Payables in the governmental funds are composed of:

Accounts payable	<u>\$ 178</u>
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NOTE 4. OTHER NOTES

A. RETIREMENT BENEFITS

The Home has established a Savings Incentive Match Plan for Employees of Small Employers (SIMPLE). Eligibility is limited to those employees with annual compensation exceeding \$5,000. The employee can elect to reduce their salary by a percentage and contribute that to the plan. Employee contributions cannot exceed \$6,000. For each calendar year the employer will contribute a matching contribution to each employee's account equal to the employee's salary reduction up to a limit of 3% of the employee's compensation. During the year ended June 30, 2011 the Home contributed \$0 to the plan.

(Continued)

BLOUNT COUNTY CHILDREN'S HOME
Maryville, Tennessee
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 4. OTHER NOTES (Continued)

B. RISK FINANCING ACTIVITIES

It is the policy of the Home to purchase commercial insurance for the risks of losses to which it is exposed. These risks include property and casualty, workmen's compensation, and director's liability. Settled claims, if any, have not exceeded this commercial coverage in any of the past three (3) fiscal years.

C. COMMITMENTS, CONTINGENCIES, AND CONCENTRATIONS – STATE OF TENNESSEE REIMBURSEMENTS

In the normal course of operations, the Home participates in state reimbursement programs from year to year. The programs are often subject to additional audits by agents of the contracting agency, the purpose of that is to ensure compliance with the specific conditions of the contract. Any liability for reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 5 – SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2011, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosures is November 2, 2011, which is the date on which the financial statements were issued.



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November 2, 2011

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
Blount County Children's Home
Maryville, Tennessee

We have audited the accompanying financial statements of the governmental activities and each major fund of the Blount County Children's Home (a component unit of Blount County, Tennessee) as of and for the year ended June 30, 2011, and have issued our report thereon dated November 2, 2011. 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 Home's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Home's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Home's internal control over financial reporting.

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.

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 Home's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings as item 11-1.

This report is intended solely for the information and use of the management, federal awarding agencies and pass-through entities, Blount County, Tennessee, and the State of Tennessee, and is not intended to be and should not be used by anyone other than these specified parties.

Ingram, Overholt & Bean, P.C.

BLOUNT COUNTY CHILDREN'S HOME
Maryville, Tennessee
SCHEDULE OF FINDINGS
For the Fiscal Year Ended June 30, 2011

Compliance Finding:

11-1

Finding:

In violation of the Tennessee Code Annotated, expenditures in the general operating fund exceeded the approved budget by \$12,734 (Audit Finding 10-1 June 30, 2010).

Recommendation:

Budgets are estimates of operational activity and are required to be prepared, and should be reviewed and amended as circumstances of operations change.

Management's Comment:

We concur with the recommendation.