

Knoxville / Knox County Animal Center



FINANCIAL STATEMENTS

June 30, 2011 and June 30, 2010



Prepared By:



Knox County Finance Department

**KNOXVILLE-KNOX COUNTY
ANIMAL CENTER**

FINANCIAL STATEMENTS

June 30, 2011 and June 30, 2010

KNOXVILLE- KNOX COUNTY
ANIMAL CENTER
Knoxville, Tennessee

FINANCIAL STATEMENTS
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**INTRODUCTORY
SECTION**

KNOXVILLE-KNOX COUNTY
ANIMAL CENTER

BOARD OF DIRECTORS

June 30, 2011

Ellen Adcock, Chairman

Jenny Boyd

Dr. Robert DeNovo

Michael Brown

Roy Kruse

Dr. Kristi Lively

Kim Wood McClamroch

Margie Nichols

Candy Wansley

Kristi Williams

FINANCIAL SECTION





KPMG LLP
Suite 1000
401 Commerce Street
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, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Knoxville -- Knox County Animal Center as of June 30, 2011 and 2010, and the 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 16, 2011 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 three through eight 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 introductory section and supplementary information have 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 16, 2011



young-williams animal center

BOARD OF DIRECTORS

Ellen R. Adcock
Chair

Kristin Williams
Vice Chair

Kim Wood McClamroch
Secretary

Margie Nichols
Treasurer

Jenny Boyd

Commissioner
Mike Brown

Dr. Robert Denovo

Monica Franklin

Roy Kruse

Dr. Kristi Lively

Candy Wansley

Honorary Lifetime
Founding Chair
Mark Williams

3201 Division Street
Knoxville, TN 37919
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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, 2011 and June 30, 2010. 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 2011

- The assets of the Center exceeded its liabilities at the close of the most recent fiscal year by \$263,570 (net assets). A little more than half of this of this amount may be used to meet the Center's ongoing obligations to citizens and creditors. The other portion of this amount \$120,781 (net assets) is allocated for other Center programs or invested in capital assets.
- The Center's cash and cash equivalents decreased by \$148,086. This decrease is due to the decreased revenues from operations and a decrease appropriation from Knox County due to the Knox County Sheriff's Office taking over the Knox County Animal Control department from the Center.
- The Center's total liabilities increased by \$24,579. This decrease is primarily due to the increase in accounts payable.
- The Center's total net assets decreased by \$110,319. The current year's decrease is due to decreased operating revenues for the Center.

Financial Highlights for Fiscal Year 2010

- The assets of the Center exceeded its liabilities at the close of the most recent fiscal year by \$373,889 (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 \$206,883 (net assets) is allocated for other Center programs or invested in capital assets.
- The Center's cash and cash equivalents increased by \$89,236. This increase is due to the increased revenue from user service fees and the additional appropriation from Knox County for the Center taking over Knox County Animal Control department.
- The Center's total liabilities decreased by \$2,238. This decrease is primarily due to the decrease in accounts payable.

- The Center's total net assets decreased by \$24,778. The decrease is due to increased operating expenses from adding the Knox County Animal Control department .

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 Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Fund Net Assets, and the 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 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 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 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 – 23 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 24 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, 2011, the Center's assets exceeded its liabilities by

\$263,570 (*net assets*). At June 30, 2010, the Center's net assets totaled \$373,889. 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 \$193,020, which is 73 percent of total net assets.

A little more than half of the amount of total net assets are available for future operational spending as 46 percent are either designated on how they may be used or are invested in capital assets. Amounts invested in capital assets total 29 percent of the Center's net assets.

As the following table shows, the Center reported a decrease in net assets of \$110,319 at the end of the current fiscal year ended June 30, 2011. This decrease is primarily the result of decreasing operating revenues. For the fiscal year ended June 30, 2011, the Center's funding from the City of Knoxville and Knox County was \$1,326,380, this amount was \$444,960 lower than the amount that was received in the 2010 fiscal year. This was due to the Knox County Sheriff's Office taking on Animal Control operations for Knox County. Operating revenues totaled \$977,342 for the year ended June 30, 2011 compared to \$1,118,257 for the year ended June 30, 2010, a decrease of \$140,915. Capital assets decreased by \$52,282 in fiscal year 2011 due to depreciation expense.

During the fiscal year ended June 30, 2010, the Center reported a decrease in net assets of \$24,778. This decrease was primarily the result of increased operating expenses. The decrease in capital assets was due to the depreciation expense totaling \$52,285.

	FYE June 30, 2011	FYE June 30, 2010	FYE June 30, 2009
Current and other assets	\$ 358,422	\$ 391,880	\$ 366,611
Capital assets	77,720	130,002	182,287
Total assets	<u>\$ 436,142</u>	<u>\$ 521,882</u>	<u>\$ 548,898</u>
Long-term liabilities outstanding	\$ 7,170	\$ 7,505	5,848
Other liabilities	165,402	140,488	144,383
Total liabilities	<u>172,572</u>	<u>147,993</u>	<u>150,231</u>
Net assets:			
Invested in capital assets	77,720	130,002	182,287
Unrestricted:			
Prepaid items	16,776	24,306	27,084
Inventory	26,285	27,357	92,551
Various programs	-	25,218	2,580
Unallocated	142,789	167,006	94,165
Total net assets	<u>263,570</u>	<u>373,889</u>	<u>398,667</u>
	<u>\$ 436,142</u>	<u>\$ 521,882</u>	<u>\$ 548,898</u>

The next table shows the key elements from ongoing operations that contributed to the decrease in net assets of \$110,319 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) decreased by \$140,915 in fiscal year 2011, while in fiscal year 2010 they decreased by \$79,312. Adoption fees decreased 15 percent to \$300,577 in fiscal year 2011, while in fiscal year 2010 they increased 13 percent to \$354,911. User service fees for the fiscal year ended June 30, 2011 were \$351,564 compared to \$405,192 for the fiscal year ended June 30, 2010, a decrease of \$53,628. User service fees increased during fiscal year 2010 by \$37,328. Other governments and citizens groups revenue was \$625,778 for the fiscal year ended 2011 compared to \$713,065 for the fiscal year ended 2010, a decrease of \$87,287. During fiscal year ended June 30, 2010, revenue from other governments and citizens groups decreased \$116,640. As mentioned earlier, subsidies from Knox County and the City of Knoxville were \$1,326,380 for the 2011 fiscal year; this is a decrease of \$444,960 from the amount of \$1,771,340 for the 2010 fiscal year. In fiscal year 2010, subsidies from Knox County and the City of Knoxville increased from fiscal year 2009 due to the Center operating the Knox County Animal Control department. Additionally, interest earnings decreased by \$1,677 in fiscal year 2011 compared to fiscal year 2010's increase of \$3,835. This is due to lower interest rates during fiscal year 2011.

Expenses for fiscal year 2011 were \$2,416,199 compared to \$2,918,210 in fiscal year 2010, a decrease of \$502,011. The decrease in expenses was primarily due to eliminating operating costs associated with additional staff, services, and materials for the Center no longer operating the Knox County Animal Control department. During fiscal year 2010, expenses increased by \$415,126 over fiscal year 2009. The increase was primarily due to additional operating costs associated with additional staff, services, and materials for the Center accepting the addition of the Knox County Animal Control department.

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

	FYE <u>June 30, 2011</u>	FYE <u>June 30, 2010</u>	FYE <u>June 30, 2009</u>
Revenues:			
Operating revenues:			
User service fees	\$ 351,564	\$ 405,192	\$ 367,864
Other governments & citizens groups	625,778	713,065	829,705
Nonoperating revenues:			
Knox County Subsidy	663,190	1,108,150	663,190
City of Knoxville Subsidy	663,190	663,190	663,190
Interest income	2,158	3,835	-
Total revenues	<u>2,305,880</u>	<u>2,893,432</u>	<u>2,523,949</u>
Expenses:			
Operating expenses - cost of sales and services			
Personal services	1,151,411	1,504,716	1,308,446
Employee benefits	447,894	535,791	438,329
Contracted services	216,262	191,296	197,794
Supplies and materials	513,579	585,064	467,891
Other charges	87,053	101,343	90,624
Total expenses	<u>2,416,199</u>	<u>2,918,210</u>	<u>2,503,084</u>
(Decrease) increase in net assets	(110,319)	(24,778)	20,865
Net assets July 1	<u>373,889</u>	<u>398,667</u>	<u>377,802</u>
Net assets June 30	<u>\$ 263,570</u>	<u>\$ 373,889</u>	<u>\$ 398,667</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 24, 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 2011. Those revisions totaled \$25,218. The final revised operating expense budget exceeded the original adopted budget by \$25,218 in additional appropriations. This was primarily due to the additional appropriations for the additional program costs during the current fiscal year. The Center's actual revenue was less than the revised budget revenue by \$456,018 due primarily to the actual revenue related to other governments and citizens groups being less than the budgeted appropriation. Actual expenses were \$345,699 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, 2011 amounted to \$77,720 (net of accumulated depreciation). There were no additional capital assets purchased during the current fiscal year. Current year depreciation expense was \$52,282. There were no additional capital assets purchased during fiscal year 2010. Depreciation expense in fiscal year 2010 was \$52,285. Additional information on the Center's capital assets can be found in Note 5 to the financial statements.

Long-term Liabilities. At the end of the current fiscal year, the Center's long-term liabilities consisted of compensated absences payable of \$7,170 compared to \$7,505 at the end of fiscal year 2010.

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.

**KNOXVILLE-KNOX COUNTY
ANIMAL CENTER**

**STATEMENTS OF NET ASSETS
June 30, 2011 and June 30, 2010**

	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 148,107	\$ 296,193
Accounts receivable	167,254	44,024
Inventory	26,285	27,357
Prepaid items	16,776	24,306
Total current assets	<u>358,422</u>	<u>391,880</u>
Noncurrent assets:		
Capital assets:		
Land improvements	16,904	16,904
Equipment	6,958	6,958
Vehicles	265,884	265,884
Less: accumulated depreciation	<u>(212,026)</u>	<u>(159,744)</u>
Total capital assets (net of accumulated depreciation)	<u>77,720</u>	<u>130,002</u>
Total assets	<u>\$ 436,142</u>	<u>\$ 521,882</u>

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

continued . . .

**KNOXVILLE-KNOX COUNTY
ANIMAL CENTER**

**STATEMENTS OF NET ASSETS - (Continued)
June 30, 2011 and June 30, 2010**

	<u>2011</u>	<u>2010</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 44,640	\$ 24,376
Accrued payroll payable	56,227	48,469
Compensated absences payable	64,535	67,643
Total current liabilities	<u>165,402</u>	<u>140,488</u>
Noncurrent liabilities:		
Compensated absences payable	7,170	7,505
Total liabilities	<u>172,572</u>	<u>147,993</u>
NET ASSETS		
Invested in capital assets	77,720	130,002
Unrestricted	185,850	243,887
Total net assets	<u>263,570</u>	<u>373,889</u>
	<u>\$ 436,142</u>	<u>\$ 521,882</u>

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

**KNOXVILLE-KNOX COUNTY
ANIMAL CENTER**

**STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
For the Years Ended June 30, 2011 and June 30, 2010**

	<u>2011</u>	<u>2010</u>
Operating revenues:		
User service fees	\$ 351,564	\$ 405,192
Other governments & citizens groups	625,778	713,065
Total operating revenues	<u>977,342</u>	<u>1,118,257</u>
Operating expenses - cost of sales and services:		
Personal services	1,151,411	1,504,716
Employee benefits	447,894	535,791
Contracted services	216,262	191,296
Supplies and materials	513,579	585,064
Other charges	<u>87,053</u>	<u>101,343</u>
Total operating expenses - cost of sales and services	<u>2,416,199</u>	<u>2,918,210</u>
Operating loss	<u>(1,438,857)</u>	<u>(1,799,953)</u>
Nonoperating revenues (expenses):		
Knox County Subsidy	663,190	1,108,150
City of Knoxville Subsidy	663,190	663,190
Interest income	<u>2,158</u>	<u>3,835</u>
Total nonoperating revenues	<u>1,328,538</u>	<u>1,775,175</u>
Change in net assets	(110,319)	(24,778)
Total net assets - beginning	<u>373,889</u>	<u>398,667</u>
Total net assets - ending	<u>\$ 263,570</u>	<u>\$ 373,889</u>

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

**KNOXVILLE-KNOX COUNTY
ANIMAL CENTER**

**STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2011 and June 30, 2010**

	2011	2010
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 854,112	\$ 1,114,252
Payments to vendors	(727,116)	(785,754)
Payments to employees	(1,603,620)	(2,014,437)
	(1,476,624)	(1,685,939)
Cash Flows from Noncapital Financing Activities		
Subsidy from Knox County	663,190	1,108,150
Subsidy from City of Knoxville	663,190	663,190
	1,326,380	1,771,340
Cash Flows used in Capital and Related Financing Activities		
Purchase of Capital Assets	-	-
Cash Flows from Investing Activities		
Interest received	2,158	3,835
	(148,086)	89,236
Net (decrease) increase in cash and cash equivalents		
Cash and cash equivalents - beginning of year	296,193	206,957
Cash and cash equivalents - end of year	\$ 148,107	\$ 296,193

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

continued . . .

**KNOXVILLE-KNOX COUNTY
ANIMAL CENTER**

**STATEMENTS OF CASH FLOWS - (Continued)
For the Years Ended June 30, 2011 and June 30, 2010**

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

	<u>2011</u>	<u>2010</u>
Operating loss	\$ (1,438,857)	\$(1,799,953)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	52,282	52,285
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(123,230)	(4,005)
(Increase) decrease in inventory	1,072	65,194
(Increase) decrease in prepaid items	7,530	2,778
Increase (decrease) in accounts payable	20,264	(28,308)
Increase (decrease) in accrued payroll payable	7,758	9,396
Increase (decrease) in compensated absences payable	(3,443)	16,674
Net cash used in operating activities	<u>\$ (1,476,624)</u>	<u>\$(1,685,939)</u>

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

**KNOXVILLE-KNOX COUNTY
ANIMAL CENTER**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011 and June 30, 2010**

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 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.

**KNOXVILLE-KNOX COUNTY
ANIMAL CENTER**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2011 and June 30, 2010**

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 fair market value.

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.

**KNOXVILLE-KNOX COUNTY
ANIMAL CENTER**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2011 and June 30, 2010**

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

**KNOXVILLE-KNOX COUNTY
ANIMAL CENTER**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2011 and June 30, 2010**

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 and none were recorded for the prior fiscal year.

**KNOXVILLE-KNOX COUNTY
ANIMAL CENTER**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2011 and June 30, 2010**

NOTE 3: DEPOSITS AND INVESTMENTS

The Center's cash and cash equivalents pooled and managed by the Trustee of Knox County at June 30, 2011 and June 30, 2010, 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.

**KNOXVILLE-KNOX COUNTY
ANIMAL CENTER**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2011 and June 30, 2010**

NOTE 5: CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Land Improvements	\$ 16,904	\$ -	\$ -	\$ 16,904
Equipment	6,958	-	-	6,958
Vehicle	265,884	-	-	265,884
Total Capital Assets	289,746	-	-	289,746
Less accumulated depreciation for:				
Land Improvements	(676)	(676)	-	(1,352)
Equipment	(1,392)	(1,392)	-	(2,784)
Vehicle	(157,676)	(50,214)	-	(207,890)
Total accumulated depreciation	(159,744)	(52,282)	-	(212,026)
Total capital assets, net	\$ 130,002	\$ (52,282)	\$ -	\$ 77,720

Capital asset activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Land Improvements	16,904	-	\$ -	\$ 16,904
Equipment	6,958	-	-	6,958
Vehicle	265,884	-	-	265,884
Total Capital Assets	289,746	-	-	289,746
Less accumulated depreciation for:				
Land Improvements	-	(676)	-	(676)
Equipment	-	(1,392)	-	(1,392)
Vehicle	(107,459)	(50,217)	-	(157,676)
Total accumulated depreciation	(107,459)	(52,285)	-	(159,744)
Total capital assets, net	\$ 182,287	\$ (52,285)	\$ -	\$ 130,002

**KNOXVILLE-KNOX COUNTY
ANIMAL CENTER**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2011 and June 30, 2010**

NOTE 6: LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Compensated absences	\$ 75,148	\$ 28,381	\$ 31,824	\$ 71,705	\$ 64,535

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Compensated absences	\$ 58,474	\$ 63,618	\$ 46,944	\$ 75,148	\$ 67,643

NOTE 7: NET ASSETS

The unrestricted net assets amount for the year ended June 30, 2011 reported on the Statements of Net Assets is comprised of the following:

	<u>Amount</u>
Designated for prepaid items	\$ 16,776
Designated for inventory	26,285
Undesignated	<u>142,789</u>
Total	<u>\$ 185,850</u>

**KNOXVILLE-KNOX COUNTY
ANIMAL CENTER**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2011 and June 30, 2010**

NOTE 7: NET ASSETS (Continued)

The unrestricted net assets amount for the year ended June 30, 2010 reported on the Statements of Net Assets is comprised of the following:

	<u>Amount</u>
Designated for prepaid items	\$ 24,306
Designated for inventory	27,357
Designated for various programs	25,218
Undesignated	<u>167,006</u>
Total	<u>\$ 243,887</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 58 percent of total revenues for the year ended June 30, 2011. The City of Knoxville and Knox County provided funding to the Center of \$663,190 and \$1,108,150 in the previous year, representing approximately 61 percent of the total revenues for the year ended June 30, 2010. The current fiscal year Knox County funding decrease from prior year is due to the moving of the Knox County Animal Control unit operating out of the Center's budget. In the fiscal year 2010, the Knox County Animal Control operations were under the Center's operating budget.

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.

**KNOXVILLE-KNOX COUNTY
ANIMAL CENTER**

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2011 and June 30, 2010

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 2011 and 2010, the employer contributions amounted to \$64,316 and \$85,086, 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, 2011.

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 fiscal year 2011, no charges or liabilities have been established for the Center. Settlements have not exceeded coverage in the past three fiscal years.

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 2011 fiscal year, the Clinic received \$280,348 in grant revenue, and incurred \$306,478 in expenses. In the fiscal year of 2010, the Clinic received \$491,645 in grant revenue, and incurred \$523,430 in expenses.

**KNOXVILLE-KNOX COUNTY
ANIMAL CENTER**

NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2011 and June 30, 2010

NOTE 12: FRIENDS OF YOUNG WILLIAMS ANIMAL CENTER

Friends of Young Williams Animal Center (Friends) is a non-profit corporation established in 2008 to support and promote the Center including raising funds for Center activities. The Friends has entered into an agreement to fund a mutual agreed upon amount by Friends and the Center for the Center's operating donations budget line item. The amount provided in the current fiscal year was \$160,000. In fiscal year 2010, the amount was \$150,000. The amounts are included in the line item Other government and citizens groups in the Statements of Revenues, Expenses, and Changes in Fund Net Assets on page 11.

**SUPPLEMENTARY
INFORMATION**

**KNOXVILLE-KNOX COUNTY
ANIMAL CENTER**

**SCHEDULES OF REVENUES AND EXPENSES AND CHANGES
IN NET ASSETS - BUDGET TO ACTUAL (Budget Basis) (Unaudited)
For the Years Ended June 30, 2011 and June 30, 2010**

	2011					2010					Variance Favorable (Unfavorable)
	Original Budget	Budget Revisions	Revised Budget	Actual	Variance Favorable (Unfavorable)	Original Budget	Budget Revisions	Revised Budget	Actual	Variance Favorable (Unfavorable)	
REVENUES											
Operating:											
Adoption fees	\$ 325,000	-	\$ 325,000	\$ 300,577	\$ (24,423)	\$ 309,000	\$ 19,000	\$ 328,000	\$ 354,911	\$ 26,911	
Boarding/impound fees	45,000	-	45,000	50,987	5,987	50,000	-	50,000	47,679	(2,321)	
Sale of City Tags	2,300	-	2,300	288	(2,012)	2,000	-	2,000	2,602	602	
Miscellaneous	25,000	-	25,000	23,877	(1,123)	17,000	-	17,000	35,246	18,246	
Other Governments & Citizens groups	960,000	-	960,000	601,613	(358,387)	650,000	34,588	684,588	677,819	(6,769)	
Nonoperating:											
Knox County Subsidy	663,190	-	663,190	663,190	-	1,108,150	-	1,108,150	1,108,150	-	
City of Knoxville Subsidy	663,190	-	663,190	663,190	-	663,190	-	663,190	663,190	-	
Interest income	3,000	-	3,000	2,158	(842)	-	-	-	3,835	3,835	
Appropriations from Fund Balance	50,000	25,218	75,218	-	(75,218)	37,306	29,010	66,316	-	(66,316)	
Total revenues	2,736,680	25,218	2,761,898	2,305,880	(456,018)	2,836,646	82,598	2,919,244	2,893,432	(25,812)	
EXPENSES											
Operating:											
Personal services	1,456,200	(112,605)	1,343,595	1,151,411	192,184	1,498,683	6,210	1,504,893	1,504,716	177	
Employee benefits	547,587	(29,826)	517,761	447,894	69,867	544,081	(7,950)	536,131	535,791	340	
Contracted services	197,657	26,462	224,119	216,262	7,857	249,008	(57,692)	191,316	191,296	20	
Supplies and materials	427,934	112,189	540,123	513,579	26,544	504,574	80,530	585,104	585,064	40	
Other charges	107,302	28,998	136,300	87,053	49,247	40,300	61,500	101,800	101,343	457	
Total expenses	2,736,680	25,218	2,761,898	2,416,199	345,699	2,836,646	82,598	2,919,244	2,918,210	1,034	
(Decrease) Increase in net assets	\$ -	\$ -	\$ -	\$ (110,319)	(110,319)	\$ -	\$ -	\$ -	\$ (24,778)	(24,778)	

**INTERNAL CONTROL
AND COMPLIANCE SECTION**



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Independent Auditors' 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, 2011, and have issued our report thereon dated December 16, 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

Management of the Center is responsible for establishing and maintaining effective 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 16, 2011