

**BLOUNT COUNTY CHILDREN'S HOME**  
Maryville, Tennessee

FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2012

**BLOUNT COUNTY CHILDREN'S HOME**  
Maryville, Tennessee

INTRODUCTORY SECTION

For the Fiscal Year Ended June 30, 2012

**BLOUNT COUNTY CHILDREN'S HOME**  
 Financial Statements  
 June 30, 2012

TABLE OF CONTENTS

|   | Page    |
|---|---------|
| <b>INTRODUCTORY SECTION</b>   |         |
| Title Page and List of Principal Officials .....  | 1       |
| Letter of Transmittal .....   | 2 – 3   |
| <b>FINANCIAL SECTION</b>  |         |
| 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 Fund Balance Sheet.....  | 9       |
| Statement of Activities and Government Fund Statement of<br>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 Internal Control Over Financial Reporting<br>and on Compliance and Other Matters Based on an Audit of Financial<br>Statements Performed in Accordance with <i>Government Auditing<br/>Standards</i> ..... | 23 – 24 |
| Schedule of Findings .....  | 25      |

**BLOUNT COUNTY CHILDREN'S HOME**  
Maryville, Tennessee  
**FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2012

**ROSTER OF MANAGEMENT AND BOARD MEMBERS**

Director (Interim)

Brenda Blain

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 14, 2012

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

### Annual Financial Report

The financial statements of the Blount County Children's Home (a component unit of Blount County, Tennessee) for the fiscal year ended June 30, 2012, 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.

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 a major fund.

## Annual Financial Report (Continued)

### 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, 2012, the Home has \$57,718 in bank checking accounts, a savings account, and petty cash.

### 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,

# **Blount County Children's Home**



Joe S. Ingram, CPA (1948 – 2011)  
Lonas D. Overholt, CPA  
Robert L. Bean, CPA

428 Marilyn Lane  
Alcoa, Tennessee 37701

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

November 14, 2012

## 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 the 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, 2012, 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 the major fund of the Blount County Children's Home as of June 30, 2012 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.

The financial statements for Blount County Children's Home have been prepared assuming that the entity will continue as a going concern. As more fully disclosed in Note 5 in the Notes to Basic Financial Statements, the Home has incurred recurring net losses and net assets have significantly decreased from July 1, 2009 through June 30, 2012. These conditions raise substantial doubt about the entity's ability to continue as a going concern. Management's plans as to these matters are also described in Note 5. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability of assets or the amounts of liabilities that may result from the possible inability of the Blount County Children's Home to continue as a going concern.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2012, 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 14, 2012

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, 2012. 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                            | 38.08%         |
| Program income                               | 23.12%         |
| Contributions, Fundraising and Miscellaneous | 17.36%         |
| Interest Income                              | .25%           |
| Insurance claim refund                       | 10.35%         |
| Miscellaneous                                | 10.84%         |
| Total funding                                | <u>100.00%</u> |

Operational costs for the Home were \$156,590 and \$97,217 fiscal years ended June 30, 2012 and 2011, respectively. The 61.07% increase was chiefly the result of an increase in property taxes and over-all expense increases.

## NET ASSETS

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

|                            | <u>2012</u>    | <u>2011</u>    |
|----------------------------|----------------|----------------|
| Current assets             | \$ 79,480      | \$ 103,729     |
| Capital assets, net        | <u>226,732</u> | <u>232,054</u> |
| Total Assets               | <u>306,212</u> | <u>335,783</u> |
| Current liabilities        | <u>34,900</u>  | <u>178</u>     |
| Total Liabilities          | <u>34,900</u>  | <u>178</u>     |
| Net Assets:                |                |                |
| Invested in capital assets | 226,732        | 232,054        |
| Unrestricted               | <u>44,580</u>  | <u>103,551</u> |
| Total Net Assets           | <u>271,312</u> | <u>335,605</u> |

Net assets of the Home decreased 9% 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 56.95% during the current year.

### Analysis of Changes in Net Assets

The Home's net assets decreased by \$64,293 for the fiscal year 2012. The change is explained below:

|                                 | <u>2012</u>       | <u>2011</u>       |
|---------------------------------|-------------------|-------------------|
| <u>Revenues</u>                 |                   |                   |
| Intergovernmental               | \$ 37,219         | \$ 5,384          |
| Program Income                  | 22,594            | 24,633            |
| Donations and fundraising       | 16,963            | 14,071            |
| Interest income                 | 242               | 3,496             |
| Insurance claim refund          | 10,111            | -                 |
| Miscellaneous                   | <u>10,590</u>     | <u>-</u>          |
| Total Revenues                  | <u>97,719</u>     | <u>47,584</u>     |
| <u>Expenses</u>                 |                   |                   |
| Home operating expenses         | 151,119           | 96,768            |
| Fund raising expenses           | 7                 | 449               |
| Depreciation                    | <u>10,886</u>     | <u>10,644</u>     |
| Total Expenses                  | <u>162,012</u>    | <u>107,861</u>    |
| Change in net assets            | (64,293)          | (60,277)          |
| Net assets at beginning of year | <u>335,605</u>    | <u>395,882</u>    |
| Net assets at end of year       | <u>\$ 271,312</u> | <u>\$ 335,605</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>2012</u> | <u>2011</u> |
|--|-------------|-------------|
| Working Capital (the amount by which current assets exceed liabilities)  | \$ 44,580   | \$ 103,551  |
| Current Ratio (compares current assets to liabilities – as an indicator of the ability to pay current obligations)     | 2.28        | 582.75      |
| Days Cash and Investments (represents the number of days normal operations could continue with no revenue collections) | 135 days    | 388 days    |
| Return on Assets – illustrates to what extent there will be sufficient funds to replace assets in the future           | (19.3%)     | (18.34%)    |

## CAPITAL ASSETS

At the fiscal year ended June 30, 2012, the Home had \$226,732 invested in capital assets as outlined below (a 2% decrease from the last year):

|                                | <u>2012</u>       | <u>2011</u>       |
|--------------------------------|-------------------|-------------------|
| Buildings and improvements     | \$ 773,349        | \$ 773,349        |
| Equipment                      | 133,432           | 132,572           |
| Furniture and fixtures         | <u>48,615</u>     | <u>43,911</u>     |
|                                | 955,396           | 949,832           |
| Less: Accumulated depreciation | <u>(728,664)</u>  | <u>(717,778)</u>  |
| Totals                         | <u>\$ 226,732</u> | <u>\$ 232,054</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.

# Blount County Children's Home

**BLOUNT COUNTY CHILDREN'S HOME**  
Maryville, Tennessee  
**STATEMENT OF NET ASSETS AND**  
**GOVERNMENT FUNDS BALANCE SHEET**  
June 30, 2012

| <u>ASSETS</u>   | <u>Governmental<br/>Funds</u> | <u>Adjustments</u>  | <u>Statement of<br/>Net Assets</u> |
|---|-------------------------------|---------------------|------------------------------------|
|   | <u>General<br/>Fund</u>       |                     |                                    |
| Cash in bank – Checking and Savings.....              | \$ 57,718                     | \$ -                | \$ 57,718                          |
| Accounts receivable .....                             | 21,762                        | -                   | 21,762                             |
| Capital assets, net of accumulated depreciation ..... | <u>-</u>                      | <u>226,732</u> (1)  | <u>226,732</u>                     |
| Total Assets .....                                    | <u>\$ 79,480</u>              | <u>226,732</u>      | <u>306,212</u>                     |
| <u>LIABILITIES AND FUND BALANCES</u>                  |                               |                     |                                    |
| CURRENT LIABILITIES:                                  |                               |                     |                                    |
| Accounts payable.....                                 | \$ 34,900                     | -                   | 34,900                             |
| FUND BALANCES:  |                               |                     |                                    |
| Unassigned .....                                      | <u>44,580</u>                 | <u>(44,580)</u> (2) | <u>-</u>                           |
| Total Liabilities and Fund Balances.....              | <u>\$ 79,480</u>              | <u>(44,580)</u>     | <u>34,900</u>                      |
| NET ASSETS:   |                               |                     |                                    |
| Invested in capital assets .....                      |                               | 226,732 (2)         | 226,732                            |
| Unrestricted.....                                     |                               | <u>44,580</u> (2)   | <u>44,580</u>                      |
| Total Net Assets .....                                |                               | <u>\$ 271,312</u>   | <u>\$ 271,312</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 \$728,664.
- (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  
**STATEMENT OF ACTIVITIES AND GOVERNMENT FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS**  
For the Fiscal Year Ended June 30, 2012

|  | <u>General<br/>Fund</u> | <u>Adjustments</u>   | <u>Statement of<br/>Activities</u> |
|--|-------------------------|----------------------|------------------------------------|
| <b>REVENUES:</b>                                     |                         |                      |                                    |
| Intergovernmental .....                              | \$ 37,219               | \$ -                 | \$ 37,219                          |
| Program income .....                                 | 22,594                  | -                    | 22,594                             |
| Donations and fundraising.....                       | 16,963                  | -                    | 16,963                             |
| Interest income.....                                 | 242                     | -                    | 242                                |
| Insurance claim refund.....                          | 10,111                  | -                    | 10,111                             |
| Miscellaneous income .....                           | <u>10,590</u>           | -                    | <u>10,590</u>                      |
| Total Revenues .....                                 | <u>97,719</u>           | <u>-</u>             | <u>97,719</u>                      |
| <b>EXPENDITURES:</b>                                 |                         |                      |                                    |
| Home Operating Expenses .....                        | <u>156,690</u>          | <u>5,322 (1)</u>     | <u>162,012</u>                     |
| Excess (Deficiency) of Revenues over Expenditures... | (58,971)                | (5,322)              | (64,293)                           |
| <br>NET ASSETS – Beginning of the Year.....          | <br><u>103,551</u>      | <br><u>232,054</u>   | <br><u>335,605</u>                 |
| <br>NET ASSETS – End of the Year .....               | <br><u>\$ 44,580</u>    | <br><u>\$226,732</u> | <br><u>\$ 271,312</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. Asset acquisitions are expensed in the Statement of Revenues, Expenditures and Changes in Fund Balances.

|                         |                 |
|-------------------------|-----------------|
| (1) Assets Depreciation | \$ 10,886       |
| Assets Acquired         | <u>(5,564)</u>  |
|                         | <u>\$ 5,322</u> |

See accompanying independent auditors' report and notes.

**BLOUNT COUNTY CHILDREN'S HOME**  
Maryville, Tennessee  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE – COMPARED TO BUDGET**  
For the Fiscal Year Ended June 30, 2012

|   | <u>Budgeted Amounts</u> |                   | <u>Actual</u>    | Variance with                                       |
|---|-------------------------|-------------------|------------------|---|
|   | <u>Original</u>         | <u>Final</u>      |                  | Final Budget -<br>Favorable<br><u>(Unfavorable)</u> |
| <b>REVENUES:</b>  |                         |                   |                  |   |
| Intergovernmental:  |                         |                   |                  |   |
| State of Tennessee .....  | \$ 11,000               | \$ 11,000         | \$ 11,000        | \$ -  |
| City of Maryville appropriation.....                              | 19,350                  | 19,350            | 21,762           | 2,412   |
| Trust Fund Interest .....   | 4,200                   | 4,200             | 4,457            | 257   |
| Program income:   |                         |                   |                  |   |
| Gardner Place .....   | 56,780                  | 56,780            | 18,408           | (38,372)  |
| Kick Nic.....   | 8,200                   | 8,200             | 1,580            | (6,620)   |
| Client fees .....   | 300                     | 300               | 2,606            | 2,306   |
| Donations and Fund-raising:                                       |                         |                   |                  |   |
| Fund-raising .....  | 9,000                   | 9,000             | 4,634            | (4,366)   |
| Private donations (Business &<br>Individuals).....                | 3,000                   | 3,000             | 9,104            | 6,104   |
| Gross rents revenue .....   | -                       | -                 | 3,225            | 3,225   |
| Interest income.....  | 600                     | 600               | 242              | (358)   |
| Insurance claim refund.....                                       | -                       | -                 | 10,111           | 10,111  |
| Miscellaneous.....  | -                       | -                 | 10,590           | 10,590  |
| Total Revenues .....  | <u>112,430</u>          | <u>112,430</u>    | <u>97,719</u>    | <u>(14,711)</u>                                     |
| <b>EXPENDITURES:</b>  |                         |                   |                  |   |
| Home Operating Expenses:  |                         |                   |                  |   |
| Salaries and contract labor .....                                 | 62,500                  | 62,500            | 57,957           | 4,543   |
| Payroll taxes.....  | 4,500                   | 4,500             | 4,761            | (261)   |
| Telephone and web hosting.....                                    | 3,000                   | 3,000             | 4,255            | (1,255)   |
| Vehicle (Transportation) .....                                    | 1,200                   | 1,200             | 132              | 1,068   |
| Insurance – Company.....  | 6,200                   | 6,200             | 8,122            | (1,922)   |
| Supplies .....  | 1,200                   | 1,200             | 1,057            | 143   |
| Building repairs, renovations, and<br>maintenance.....            | 2,400                   | 2,400             | 13,122           | (10,722)  |
| Utilities .....   | 11,000                  | 11,000            | 11,230           | (230)   |
| Office supplies and expense .....                                 | 3,900                   | 3,900             | 8,994            | (5,094)   |
| Legal and professional.....                                       | 3,000                   | 3,000             | 8,838            | (5,838)   |
| Training.....   | 2,500                   | 2,500             | 2,612            | (112)   |
| Taxes .....   | 10,730                  | 10,730            | 32,492           | (21,762)  |
| Miscellaneous.....  | -                       | -                 | 3,111            | (3,111)   |
| Fund raising expense .....  | 300                     | 300               | 7                | 293   |
| Total Home Operating Expenses .....                               | <u>112,430</u>          | <u>112,430</u>    | <u>156,690</u>   | <u>(44,260)</u>                                     |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER EXPENDITURES.....</b> |                         |                   |                  |   |
|   | -                       | -                 | (58,971)         | (58,971)  |
| <b>FUND BALANCE Unassigned – Beginning<br/>of the Year.....</b>   |                         |                   |                  |   |
|   | <u>209,106</u>          | <u>209,106</u>    | <u>103,551</u>   | <u>(105,555)</u>                                    |
| <b>FUND BALANCE Unassigned – End<br/>of the Year.....</b>         |                         |                   |                  |   |
|   | <u>\$ 209,106</u>       | <u>\$ 209,106</u> | <u>\$ 44,580</u> | <u>\$ (164,526)</u>                                 |

**BLOUNT COUNTY CHILDREN'S HOME**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2012

**INDEX**

|   | Page No. |
|---|----------|
| <b>NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</b>   |          |
| 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       |
| <b>NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY</b>  |          |
| A. Fund Accounting Requirements                             | 19       |
| B. Deposits and Investments laws and Regulations            | 19       |
| C. Fund Equity Restrictions                                 | 19       |
| <b>NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS</b> |          |
| A. Cash and Investments                                     | 19       |
| B. Accounts Receivable                                      | 20       |
| C. Capital Assets   | 20       |
| D. Accrued Expenses   | 21       |
| <b>NOTE 4. OTHER NOTES</b>                                  |          |
| A. Retirement Benefits                                      | 21       |
| B. Risk Financing Activities                                | 21       |
| C. Commitments, Contingencies and Concentrations            | 21       |
| <b>NOTE 5. GOING CONCERN</b>                                | 22       |
| <b>NOTE 6. SUBSEQUENT EVENTS</b>                            | 22       |

**BLOUNT COUNTY CHILDREN'S HOME**  
Maryville, Tennessee  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2012

**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:

(Continued)

**BLOUNT COUNTY CHILDREN'S HOME**  
Maryville, Tennessee  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2012

**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.

**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.

**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.

(Continued)

**BLOUNT COUNTY CHILDREN'S HOME**  
Maryville, Tennessee  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2012

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

**C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)**

**Basis of Accounting (Continued)**

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 petty cash of the Home.

Investments (if applicable) are carried at fair value. Fair value is based on quoted market price.

**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 of June 30, 2012. 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.

(Continued)

**BLOUNT COUNTY CHILDREN'S HOME**  
Maryville, Tennessee  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2012

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

**D. ASSETS, LIABILITIES, AND EQUITY (Continued)**

**Fixed Assets (Continued)**

*Government-wide Statements (Continued)*

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.

**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.

(Continued)



**BLOUNT COUNTY CHILDREN'S HOME**  
Maryville, Tennessee  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2012

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

**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 prior 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.
- 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.

(Continued)

**BLOUNT COUNTY CHILDREN'S HOME**  
Maryville, Tennessee  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2012

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

**H. FUND BALANCES (Continued)**

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.

**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.

(Continued)

**BLOUNT COUNTY CHILDREN'S HOME**  
 Maryville, Tennessee  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 June 30, 2012

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

**A. CASH AND INVESTMENTS (Continued)**

The carrying amount of the Home's cash deposits at June 30, 2012, is summarized as follows:

|                                | <u>Interest<br/>Rate</u> | <u>Maturity<br/>Date</u> | <u>Carrying<br/>Amount</u> |
|--------------------------------|--------------------------|--------------------------|----------------------------|
| Checking and Savings Accounts: |                          |                          |                            |
| Capital Bank Checking          | Varies                   | -                        | \$ 12,961                  |
| Capital Bank Payroll           | Varies                   | -                        | 25                         |
| Capital Bank Savings           | Varies                   | -                        | <u>44,682</u>              |
| Total Checking Accounts        |                          |                          | 57,668                     |
| Petty Cash .....               |                          |                          | <u>50</u>                  |
| Total Cash .....               |                          |                          | <u>\$ 57,718</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/Other Governments*

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, 2012 amounts to \$0. An appropriation due from the City of Maryville was \$21,762 at June 30, 2012.

**C. CAPITAL ASSETS**

Capital asset activities for the year ended June 30, 2012 was as follows:

|  | <u>Balance at<br/>July 1, 2011</u> | <u>Additions</u>  | <u>Disposals</u> | <u>Balance at<br/>June 30, 2012</u> |
|--|------------------------------------|-------------------|------------------|-------------------------------------|
| Governmental activities:                       |                                    |                   |                  |                                     |
| Buildings and improvements                     | \$ 773,349                         | \$ -              | \$ -             | \$ 773,349                          |
| Equipment                                      | 132,572                            | 860               | -                | 133,432                             |
| Furniture and fixtures                         | <u>43,911</u>                      | <u>4,704</u>      | -                | <u>48,615</u>                       |
| Totals at historical cost                      | <u>949,832</u>                     | <u>5,564</u>      | -                | <u>955,396</u>                      |
| Less accumulated depreciation:                 |                                    |                   |                  |                                     |
| Buildings and improvements                     | (554,222)                          | (7,240)           | -                | (561,462)                           |
| Equipment                                      | (123,678)                          | (2,489)           | -                | (126,167)                           |
| Furniture and fixtures                         | <u>(39,878)</u>                    | <u>(1,157)</u>    | -                | <u>(41,035)</u>                     |
| Total accumulated depreciation                 | <u>(717,778)</u>                   | <u>(10,886)</u>   | -                | <u>(728,664)</u>                    |
| Governmental activities<br>Capital assets, net | <u>\$ 232,054</u>                  | <u>\$ (5,322)</u> | <u>\$ -</u>      | <u>\$ 226,732</u>                   |

(Continued)

**BLOUNT COUNTY CHILDREN'S HOME**  
Maryville, Tennessee  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2012

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

**C. CAPITAL ASSETS (Continued)**

Depreciation expense was charged to governmental activities as follows:

|                 |                  |
|-----------------|------------------|
| Children's Home | <u>\$ 10,886</u> |
|-----------------|------------------|

**D. ACCRUED EXPENSES**

Payables in the governmental funds are composed of:

|                  |                  |
|------------------|------------------|
| Accounts payable | <u>\$ 34,900</u> |
|------------------|------------------|

**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, 2012 the Home contributed \$0 to the plan.

**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.

(Continued)

**BLOUNT COUNTY CHILDREN'S HOME**  
Maryville, Tennessee  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2012

**NOTE 5. GOING CONCERN**

There is a substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time. During the period July 1, 2009 through June 30, 2012, recurring net losses have yielded a combined decrease of \$164,526. This net decrease is comprised of the following, tabulated by the fiscal year ended June 30, as follows:

| <u>Year Ended June 30,</u> | <u>Losses Incurred</u> |
|----------------------------|------------------------|
| 2010                       | \$ (55,922)            |
| 2011                       | (49,633)               |
| 2012                       | <u>(58,971)</u>        |
|                            | <u>\$ (164,526)</u>    |

If the trend of the last three years continue, working capital will be depleted.

Management's on-going plans to continue as a going concern consist of the following:

- Increase fund raising activities
- Secure funding through State of Tennessee aid and/or grants
- Sell the dump site on property
- Reduce expenses
- One stop shop for social services
- Day care center dependent upon local business sponsorships

The financial statements do not include any adjustments to reflect the possible future effects on the recoverability of assets or the amounts of liabilities that may result from the possible inability of the Home to continue as a going concern.

**NOTE 6. SUBSEQUENT EVENTS**

The date to which events occurring after June 30, 2012, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosures is November 14, 2012, which is the date on which the financial statements were issued.



Joe S. Ingram, CPA(1948 – 2011)  
Lonas D. Overholt, CPA  
Robert L. Bean, CPA

428 Marilyn Lane  
Alcoa, Tennessee 37701

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

November 14, 2012

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 the 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, 2012, and have issued our report thereon dated November 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Blount County Children's Home is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Blount County Children's 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 Blount County Children's Home's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Blount County Children's 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 Blount County Children's 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 and other matters 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 12-1.

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, 2012

**Compliance Finding:**

**12-1 Finding:**

In violation of the Tennessee Code Annotated, expenditures in the general operating fund exceeded the approved budget by \$44,260 (Audit Finding 11-1 June 30, 2011 and 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.