

Knoxville / Knox County Animal Center



FINANCIAL STATEMENTS

June 30, 2012 and June 30, 2011



Prepared By:

Knox County Finance Department



**KNOXVILLE – KNOX COUNTY
ANIMAL CENTER**

FINANCIAL STATEMENTS

June 30, 2012 and June 30, 2011

KNOXVILLE- KNOX COUNTY
ANIMAL CENTER
Knoxville, Tennessee

FINANCIAL STATEMENTS
June 30, 2012 and June 30, 2011

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**INTRODUCTORY
SECTION**

KNOXVILLE-KNOX COUNTY
ANIMAL CENTER

BOARD OF DIRECTORS

June 30, 2012

Kristin Williams, Chairman

Jenny Boyd

Michael Brown

Dr. Robert DeNovo

Roy Kruse

Kym Hand Lightholder

Dr. Kristi Lively

Kim Wood McClamroch

Margie Nichols

Janet Testerman

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Board of Directors of
Knoxville – Knox County Animal Center
Knoxville, Tennessee

We have audited the accompanying statement of net assets of the Knoxville – Knox County Animal Center (the Center) as of June 30, 2012, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Center as of and for the year ended June 30, 2011, were audited by other auditors whose report dated December 16, 2011, expressed an unqualified opinion on those statements.

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 the 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 2012 financial statements referred to previously present fairly, in all material respects, the financial position of the Knoxville – Knox County Animal Center as of June 30, 2012, and the changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1-A, 8 and 13 to the financial statements, the Knoxville – Knox County Animal Center ceased operations on June 30, 2012. All assets, liabilities and net assets of the Center were transferred to a successor not-for-profit organization subsequent to June 30, 2012.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 2, 2013, 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2012 supplementary information is fairly stated in all material respects in relation to the 2012 financial statements as a whole. The financial statements as of June 30, 2011, and for the year then ended were audited by other auditors in accordance with auditing standards generally accepted in the United States of America whose report dated December 16, 2011 expressed an unqualified opinion on the 2011 financial statements. The 2011 auditor's report stated that the supplementary information has not been subjected to the auditing procedures applied in the audit of the 2011 financial statements and expressed no opinion on the 2011 supplementary information.

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 introductory section is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
January 2, 2013



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, 2012 and June 30, 2011. 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 2012

- In the fiscal year 2012, the City of Knoxville, Knox County, and the Knoxville-Knox County Animal Center Board agreed to terminate the joint cooperation agreement. The effective date of this termination was June 30, 2012. The successor not for profit agency, Young-Williams Animal Center of East Tennessee has entered into a defined services contract with Knox County to provide sheltering and animal welfare services for Knox County. Subsequent to June 30, 2012, the remaining net assets will be distributed to the City of Knoxville, Knox County, and Young-Williams Animal Center of East Tennessee.

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.

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, Center's operations under the joint cooperation agreement terminated on June 30, 2012, and an agreement was reached for another organization to continue operations. The remaining net assets were reclassified as a payable to the successor organization.

As the following table shows, the Center reported a decrease in net assets of \$263,570 at the end of the current fiscal year ended June 30, 2012. This decrease is the result of the termination of the Center's operations. For the fiscal year ended June 30, 2012, the Center's funding from the City of Knoxville and Knox County was \$1,326,380, this amount was the same amount that was received in the 2011 fiscal year. Operating revenues totaled \$1,094,808 for the year ended June 30, 2012 compared to \$977,342 for the year ended June 30, 2011, an increase of \$117,466. Capital assets were transferred to the successor agency, Young-Williams Animal Center of East Tennessee as of July 1, 2012.

During the fiscal year ended June 30, 2011, the Center reported a decrease in net assets of \$110,319. This decrease was primarily the result of decreased operating revenues. The decrease in capital assets was due to the depreciation expense totaling \$52,282.

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

	FYE June 30, 2012	FYE June 30, 2011	FYE June 30, 2010
Current and other assets	\$ 351,841	\$ 358,422	\$ 391,880
Capital assets	25,436	77,720	130,002
Total assets	<u>\$ 377,277</u>	<u>\$ 436,142</u>	<u>\$ 521,882</u>
Long-term liabilities outstanding	\$ -	\$ 7,170	\$ 7,505
Current liabilities	377,277	165,402	140,488
Total liabilities	<u>377,277</u>	<u>172,572</u>	<u>147,993</u>
Net assets:			
Invested in capital assets	-	77,720	130,002
Unrestricted:			
Prepaid items	-	16,776	24,306
Inventory	-	26,285	27,357
Various programs	-	-	25,218
Unallocated	-	142,789	167,006
Total net assets	<u>\$ -</u>	<u>\$ 263,570</u>	<u>\$ 373,889</u>

The next table shows the final year of operations compared with the prior three fiscal years. Operating revenues, comprised mainly of user service fees (e.g., adoption fees, boarding/impound fees, and adopt-a-pet adoption fees) and other governments & citizens groups (e.g., private donations) increased by \$117,466 in fiscal year 2012, while in fiscal year 2011 they decreased by \$140,915. Adoption fees increased 10 percent to \$330,356 in fiscal year 2012, while in fiscal year 2011 they decreased 15 percent to \$300,577. User service fees for the fiscal year ended June 30, 2012 were \$599,369 compared to \$351,564 for the fiscal year ended June 30, 2011, an increase of \$247,805. This increase is due to the new adoption transport program where animals are transported to other areas of the country that have little or no adoptable animals. User service fees decreased during fiscal year 2011 by \$53,628. Other governments and citizens groups revenue was \$495,439 for the fiscal year ended 2012 compared to \$625,778 for the fiscal year ended 2011, a decrease of \$130,339. During fiscal year ended June 30, 2011, revenue from other governments and citizens groups decreased \$87,287. As mentioned earlier, subsidies from Knox County and the City of Knoxville were \$1,326,380 for the 2012 fiscal year; this is the same amount for the 2011 fiscal year. In fiscal year 2011, subsidies from Knox County and the City of Knoxville decreased from fiscal year 2010 due to the Center moving the Knox County Animal Control department to the Knox County Sheriff's Office. Additionally, interest earnings were eliminated in fiscal year 2012 compared to fiscal year 2011's decrease of \$1,677. This is due to low cash balances throughout the year due to the termination of operations.

Expenses for fiscal year 2012 were \$2,672,162 compared to \$2,416,199 in fiscal year 2011, an increase of \$255,963. The increase in expenses was primarily due to increased operating costs associated with additional staff, and services, for the Center due to organizational restructuring and new project initiatives carried out during the year. During fiscal year 2011, expenses decreased by \$502,011 over fiscal year 2010. The decrease was primarily due to eliminating operating costs associated with additional staff, services, and materials for the Center moving the Knox County Animal Control department to the Knox County Sheriff's office.

**Knoxville-Knox County
Animal Center
Statements of Revenues, Expenses,
and Changes in Net Assets**

	FYE <u>June 30, 2012</u>	FYE <u>June 30, 2011</u>	FYE <u>June 30, 2010</u>
Revenues:			
Operating revenues:			
User service fees	\$ 599,369	\$ 351,564	\$ 405,192
Other governments & citizens groups	495,439	625,778	713,065
Nonoperating revenues:			
Knox County Subsidy	663,190	663,190	1,108,150
City of Knoxville Subsidy	663,190	663,190	663,190
Interest income	-	2,158	3,835
Total revenues	<u>2,421,188</u>	<u>2,305,880</u>	<u>2,893,432</u>
Expenses:			
Operating expenses - cost of sales and services:			
Personal services	1,277,669	1,151,411	1,504,716
Employee benefits	485,952	447,894	535,791
Contracted services	161,437	216,262	191,296
Supplies and materials	551,834	513,579	585,064
Other charges	195,270	87,053	101,343
Total expenses	<u>2,672,162</u>	<u>2,416,199</u>	<u>2,918,210</u>
Distribution of Assets Resulting from Transfer of Operations	<u>(12,596)</u>	<u>-</u>	<u>-</u>
(Decrease) increase in net assets	(263,570)	(110,319)	(24,778)
Net assets July 1	<u>263,570</u>	<u>373,889</u>	<u>398,667</u>
Net assets June 30	<u>\$ -</u>	<u>\$ 263,570</u>	<u>\$ 373,889</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 no budget revisions to the adopted revenue budget in fiscal year 2012. The Center's actual revenue was less than the budget revenue by \$183,792 due primarily to the actual revenue related to other governments and citizens groups being less than the budgeted appropriation. Actual expenses were \$67,182 more than the expenditure budget due to reorganization costs implemented by management.

Capital Assets and Debt Administration

Capital Assets. The Center's investment in capital assets as of June 30, 2012 (net of accumulated depreciation) was \$25,436 and on July 1, 2012 the capital assets were transferred to the successor agency Young-Williams Animal Center of East Tennessee. There were no additional capital assets purchased during the current fiscal year. Current year depreciation expense was \$52,284. There were no additional capital assets purchased during fiscal year 2011. Depreciation expense in fiscal year 2011 was \$52,282. Additional information on the Center's capital assets can be found in Note 5 to the financial statements.

Long-term Liabilities. The Center's long-term liabilities were transferred to the successor organization as of July 1, 2012. The long-term liabilities amounted to \$7,170 at the end of fiscal year 2011. This balance was made up of compensated absences.

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, 2012 and June 30, 2011**

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 325	\$ 148,107
Accounts receivable	333,156	167,254
Inventory	18,360	26,285
Prepaid items	-	16,776
Total current assets	<u>351,841</u>	<u>358,422</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>(264,310)</u>	<u>(212,026)</u>
Total capital assets (net of accumulated depreciation)	<u>25,436</u>	<u>77,720</u>
Total assets	<u>\$ 377,277</u>	<u>\$ 436,142</u>

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

**KNOXVILLE-KNOX COUNTY
ANIMAL CENTER**

**STATEMENTS OF NET ASSETS - (Continued)
June 30, 2012 and June 30, 2011**

	<u>2012</u>	<u>2011</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 87,724	\$ 44,640
Accrued payroll payable	58,594	56,227
Compensated absences payable	95,652	64,535
Due to Knox County	122,711	-
Due to Successor Organization	12,596	-
Total current liabilities	<u>377,277</u>	<u>165,402</u>
Noncurrent liabilities:		
Compensated absences payable	-	7,170
Total liabilities	<u>377,277</u>	<u>172,572</u>
NET ASSETS		
Invested in capital assets	-	77,720
Unrestricted	-	185,850
Total net assets	<u>\$ -</u>	<u>\$ 263,570</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, 2012 and June 30, 2011**

	2012	2011
Operating revenues:		
User service fees	\$ 599,369	\$ 351,564
Other governments & citizens groups	495,439	625,778
Total operating revenues	1,094,808	977,342
Operating expenses - cost of sales and services:		
Personal services	1,277,669	1,151,411
Employee benefits	485,952	447,894
Contracted services	161,437	216,262
Supplies and materials	551,834	513,579
Other charges	195,270	87,053
Total operating expenses - cost of sales and services	2,672,162	2,416,199
Operating loss	(1,577,354)	(1,438,857)
Nonoperating revenues (expenses):		
Knox County Subsidy	663,190	663,190
City of Knoxville Subsidy	663,190	663,190
Interest income	-	2,158
Total nonoperating revenues	1,326,380	1,328,538
Change in net assets before Distribution	(250,974)	(110,319)
Distribution of Net Assets Resulting from Transfer of Operations	(12,596)	-
Change in net assets	(263,570)	(110,319)
Total net assets - beginning	263,570	373,889
Total net assets - ending	\$ -	\$ 263,570

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, 2012 and June 30, 2011**

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 928,906	\$ 854,112
Payments to vendors	(600,537)	(727,116)
Payments to employees	(1,789,935)	(1,603,620)
Net cash used in operating activities	<u>(1,461,566)</u>	<u>(1,476,624)</u>
Cash Flows from Noncapital and Related Financing Activities		
Distribution of Net Assets Resulting from Dissolution	<u>(12,596)</u>	<u>-</u>
Net cash used by noncapital financing activities	<u>(12,596)</u>	<u>-</u>
Cash Flows from Noncapital Financing Activities		
Subsidy from Knox County	663,190	663,190
Subsidy from City of Knoxville	<u>663,190</u>	<u>663,190</u>
Net cash provided by noncapital financing activities	<u>1,326,380</u>	<u>1,326,380</u>
Cash Flows from Investing Activities		
Interest received	<u>-</u>	<u>2,158</u>
Net (decrease) increase in cash and cash equivalents	(147,782)	(148,086)
Cash and cash equivalents - beginning of year	<u>148,107</u>	<u>296,193</u>
Cash and cash equivalents - end of year	<u>\$ 325</u>	<u>\$ 148,107</u>

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

**KNOXVILLE-KNOX COUNTY
ANIMAL CENTER**

**STATEMENTS OF CASH FLOWS - (Continued)
For the Years Ended June 30, 2012 and June 30, 2011**

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

	<u>2012</u>	<u>2011</u>
Operating loss	\$ (1,577,354)	\$(1,438,857)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	52,284	52,282
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(165,902)	(123,230)
(Increase) decrease in inventory	7,925	1,072
(Increase) decrease in prepaid items	16,776	7,530
Increase (decrease) in accounts payable	43,082	20,264
Increase (decrease) in accrued payroll payable	2,367	7,758
Increase (decrease) in compensated absences payable	23,947	(3,443)
Increase (decrease) in Due to Knox County	122,713	-
Increase (decrease) in Due to Successor Organization	12,596	-
Net cash used in operating activities	<u>\$ (1,461,566)</u>	<u>\$ (1,476,624)</u>

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

**KNOXVILLE-KNOX COUNTY
ANIMAL CENTER**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012 and June 30, 2011**

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, Tennessee.

During the fiscal year ended June 30, 2012, the City of Knoxville, Knox County, and the Knoxville-Knox County Animal Center Board agreed to terminate the joint cooperation agreement. The effective date of this termination is June 30, 2012. A successor not-for-profit agency, Young-Williams Animal Center of East Tennessee, has entered into a defined services contract with Knox County to provide sheltering and animal welfare services for Knox County. Subsequent to June 30, 2012, the remaining net assets will be distributed to the City of Knoxville, Knox County, and Young-Williams Animal Center of East Tennessee.

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*”.

**KNOXVILLE-KNOX COUNTY
ANIMAL CENTER**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2012 and June 30, 2011**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Center's policy to use restricted resources first and then unrestricted resources, as they are needed

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 and recorded when incurred. Receivables 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, 2012 and June 30, 2011**

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. Capital assets are recorded at historical cost. 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.

<u>Asset</u>	<u>Years</u>
Land Improvements	25
Equipment	5
Vehicle	5

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, 2012 and June 30, 2011**

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. The budget was prepared using the modified accrual basis of accounting. 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, 2012 and June 30, 2011**

NOTE 3: DEPOSITS AND INVESTMENTS

The Center's cash and cash equivalents pooled and managed by the Trustee of Knox County at June 30, 2012 and June 30, 2011, 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, 2012 and June 30, 2011**

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, 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	(1,352)	(676)	-	(2,028)
Equipment	(2,784)	(1,393)	-	(4,177)
Vehicle	(207,890)	(50,215)	-	(258,105)
Total accumulated depreciation	(212,026)	(52,284)	-	(264,310)
Total capital assets, net	\$ 77,720	\$ (52,284)	\$ -	\$ 25,436

Capital Assets used in the Center's operations were transferred to the successor organization, Young-Williams Animal Center of East Tennessee subsequently after the fiscal year ended June 30, 2012. The net book value transferred was \$25,436.

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

**KNOXVILLE-KNOX COUNTY
ANIMAL CENTER**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2012 and June 30, 2011**

NOTE 6: LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Compensated absences	\$ 71,705	\$ 23,947	\$ -	\$ 95,652	\$ 95,652

The long-term liability for the Center was liquidated subsequently after the fiscal year ended June 30, 2012. The amount totaled \$95,652.

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

NOTE 7: NET ASSETS

The remaining net assets have been distributed to the successor organization, Young-Williams Animal Center of East Tennessee subsequently after the fiscal year ended June 30, 2012. The amount totaled \$12,596.

**KNOXVILLE-KNOX COUNTY
ANIMAL CENTER**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2012 and June 30, 2011**

NOTE 7: NET ASSETS (Continued)

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><u>\$ 185,850</u></u>

NOTE 8: RELATED PARTY TRANSACTIONS

The City of Knoxville and Knox County provided funding to the Center of \$663,190 and \$663,190 respectively; representing approximately 55 percent of total revenues for the year ended June 30, 2012. The City of Knoxville and Knox County provided funding to the Center of \$663,190 and \$663,190 in the previous year, representing approximately 58 percent of the total revenues for the year ended June 30, 2011.

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.

As mentioned in Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – A. Reporting Entity, the Center has terminated operations as of June 30, 2012; and Knox County has entered into a defined services agreement with Young-Williams Animal Center of East Tennessee to provide sheltering and animal welfare services for Knox County. As part of the defined services contract, the County leases the real property to Young-Williams Animal Center of East Tennessee (the Lessee). The initial term of the lease is for five years, and may be extended for up to two additional lease terms of five 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, 2012 and June 30, 2011**

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 2012 and 2011, the employer contributions amounted to \$72,429 and \$64,316, respectively. The Center's employer 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, 2012.

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 purchased commercial General Liability, Workers Compensation, and Property Insurance. 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 was for a five year period that started in fiscal year 2007. Under this grant, the Center had a Mobile Spay/Neuter Clinic (the "Clinic"). The Clinic's mobile unit was 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 targeted low-income, high density areas of the community.

This grant allowed for residents outside the areas where the Clinic traveled to be referred to private veterinarians to perform surgeries 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 were reimbursed to the veterinarians at a pre-determined discounted rate. The total estimated cost of this grant was \$3,058,913 over five years. The Clinic continues to operate every day and has performed over 25,000 surgeries since the Clinic's inception.

In the 2012 fiscal year, the Clinic received \$408,016 in grant revenue, and incurred \$419,998 in expenses. In the fiscal year of 2011, the Clinic received \$280,348 in grant revenue, and incurred \$306,478 in expenses.

**KNOXVILLE-KNOX COUNTY
ANIMAL CENTER**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
June 30, 2012 and June 30, 2011**

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 \$60,000. In fiscal year 2011, the amount was \$160,000.

NOTE 13: SUBSEQUENT EVENTS

As described in Notes 1-A and 8, the Knoxville-Knox County Animal Center terminated operations on June 30, 2012, and agreed to transfer as of July 1, 2012, \$12,596 of the Center's remaining net assets to Young-Williams Animal Center of East Tennessee, the successor not-for-profit organization. Effective July 1, 2012, Knox County entered into a defined services contract with Young-Williams Animal Center of East Tennessee to provide sheltering and animal services for Knox County.

**SUPPLEMENTARY
INFORMATION**

**KNOXVILLE-KNOX COUNTY
ANIMAL CENTER**

**SCHEDULES OF REVENUES AND EXPENSES AND CHANGES
IN NET ASSETS - BUDGET TO ACTUAL (Budget Basis)
For the Years Ended June 30, 2012 and June 30, 2011**

	2012					2011				
	Original Budget	Budget Revisions	Revised Budget	Actual	Variance Over (Under)	Original Budget	Budget Revisions	Revised Budget	Actual	Variance Over (Under)
REVENUES										
Operating:										
Adoption fees	\$ 325,000	-	\$ 325,000	\$ 330,356	\$ 5,356	\$ 325,000	-	\$ 325,000	\$ 300,577	\$ (24,423)
Boarding/impound fees	48,000	-	48,000	49,047	1,047	45,000	-	45,000	50,987	5,987
Sale of City Tags	1,000	-	1,000	301	(699)	2,300	-	2,300	288	(2,012)
Miscellaneous	27,000	-	27,000	219,665	192,665	25,000	-	25,000	23,877	(1,123)
Other Governments & Citizens groups	860,000	-	860,000	495,439	(364,561)	960,000	-	960,000	601,613	(358,387)
Nonoperating:										
Knox County Subsidy	663,190	-	663,190	663,190	-	663,190	-	663,190	663,190	-
City of Knoxville Subsidy	663,190	-	663,190	663,190	-	663,190	-	663,190	663,190	-
Interest income	1,800	-	1,800	-	(1,800)	3,000	-	3,000	2,158	(842)
Appropriations from Fund Balance	15,800	-	15,800	-	(15,800)	50,000	25,218	75,218	-	(75,218)
Total revenues	2,604,980	-	2,604,980	2,421,188	(183,792)	2,736,680	25,218	2,761,898	2,305,880	(456,018)
EXPENSES										
Operating:										
Personal services	1,246,202	32,000	1,278,202	1,277,669	533	1,456,200	(112,605)	1,343,595	1,151,411	192,184
Employee benefits	483,319	2,700	486,019	485,952	67	547,587	(29,826)	517,761	447,894	69,867
Contracted services	162,250	-	162,250	161,437	813	197,657	26,462	224,119	216,262	7,857
Supplies and materials	589,215	(34,700)	554,515	551,834	2,681	427,934	112,189	540,123	513,579	26,544
Other charges	123,994	-	123,994	195,270	(71,276)	107,302	28,998	136,300	87,053	49,247
Total expenses	2,604,980	-	2,604,980	2,672,162	(67,182)	2,736,680	25,218	2,761,898	2,416,199	345,699
Distribution of Assets Resulting from Dissolution	-	-	-	12,596	(12,596)	-	-	-	-	-
(Decrease) Increase in net assets	\$ -	\$ -	\$ -	\$ (263,570)	\$ (263,570)	\$ -	\$ -	\$ -	\$ (110,319)	\$ (110,319)

**INTERNAL CONTROL
AND COMPLIANCE SECTION**

315 NORTH CEDAR BLUFF ROAD – SUITE 200
KNOXVILLE, TENNESSEE 37923
TELEPHONE 865-769-0660
TELECOPIER 865-769-1660



100 E. TENNESSEE AVENUE
OAK RIDGE, TENNESSEE 37830
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KNOXVILLE, TENNESSEE 37930-1409
TOLL FREE 800-332-7021

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 of
Knoxville – Knox County Animal Center
Knoxville, Tennessee

We have audited the financial statements of the Knoxville – Knox County Animal Center (the Center) as of and for the year ended June 30, 2012, and have issued our report thereon dated January 2, 2013. 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* 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, such that there is a reasonable possibility that a material misstatement of the Center'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 previously.

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 and various governmental agencies and is not intended to be and should not be used by anyone other than these specified parties.

Pugh & Company, P.C.

Certified Public Accountants

Knoxville, Tennessee

January 2, 2013