

WASHINGTON COUNTY-JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.

Johnson City, Tennessee

FINANCIAL STATEMENTS

June 30, 2009

WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC

MANAGEMENT

Debbie Dobbs	Director, Board Secretary
Joy Sexton	Assistant Director

BOARD OF DIRECTORS

Terry Paduch	President, City Representative
Rick Gordon	City Representative
Ben Bowman	County Representative
Mary Ann Kinch	City Representative
Beverly Green	Washington County Humane Society Representative

WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.

TABLE OF CONTENTS

June 30, 2009

	<u>Page</u>
Transmittal Letter	1-2
<b>FINANCIAL SECTION:</b>	
Independent Auditors' Report	3-4
Management's Discussion and Analysis	5-9
Statement of Net Assets	10
Statement of Revenues, Expenses and Changes in Net Assets	11
Statement of Cash Flows	12
Statement of Functional Expenses	13
Notes to Financial Statements	14-23
<b>REQUIRED SUPPLEMENTARY INFORMATION SECTION:</b>	
Schedule of Funding Progress - Employee Retirement System	24
<b>COMPLIANCE SECTION:</b>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	25-29



October 28, 2009

To the Animal Control Board Members

This report consists of management's representations concerning the finances of the Washington County – Johnson City Animal Control Center, Inc. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the Center has established a comprehensive internal control framework that is designed both to protect the Center's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Center's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Center's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Center's financial statements have been audited by Eddy & Eddy, CPA's, P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Center for the fiscal year ended June 30, 2009, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Center's financial statements for the fiscal year ended June 30, 2009, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Center's MD&A can be found immediately following the report of the independent auditors.

## **Profile of the Center**

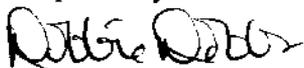
The Center, chartered as a non-profit in 1985, is designed to provide a community wide resource. The Center provides adoption and low cost spay/neuter programs and pick-up for stray and unwanted animals. In addition the Center also serves the community by investigating suspected animal cruelty, removing dead animals from roadways and private property, and educating the general public about animal care. During the fiscal year ended June 30, 2009, the shelter took in 8,731 animals.

The Center operates under the board-director form of government. The board is responsible, among other things, for adopting the budget, and hiring the Center's director. The Center's director is responsible for carrying out the policies of the board, and for overseeing the day-to-day operations of the Center.

**Pension and other postemployment benefits.** The employees of the Center are members of the Political Subdivision Pension Plan, administered by the Tennessee Consolidated Retirement System. Each year, the Center is required to contribute at an actuarially determined rate to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis.

Additional information on the Center's pension arrangements can be found in Note 7 in the notes to the financial statements.

Respectfully submitted,



Debbie Dobbs  
Executive Director



**Eddy & Eddy**

CERTIFIED PUBLIC ACCOUNTANTS

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TENNESSEE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

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CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Washington County - Johnson City Animal Control Center, Inc.  
Johnson City, Tennessee

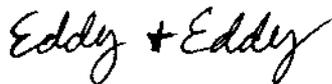
We have audited the accompanying statement of net assets of the Washington County - Johnson City Animal Control Center, Inc. (a Tennessee nonprofit organization) as of June 30, 2009 and the related statements of revenues, expenses, and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization'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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Washington County - Johnson City Animal Control Center, Inc. as of June 30, 2009, and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2009 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the schedule of funding progress – employee retirement system on pages 5 through 9 and page 24 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.



Eddy & Eddy, CPAs, P.C.  
Johnson City, Tennessee  
October 28, 2009

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Washington County-Johnson City Animal Control Center, Inc.'s annual financial report presents our discussion and analysis of the Center's financial performance during the fiscal year that ended on June 30, 2009. Please read it in conjunction with the transmittal letter at the front of this report and the Center's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The Center's total net assets decreased by \$29,336 during the fiscal year. Unrestricted net assets decreased \$25,836, and restricted net assets decreased \$3,500.
- During the year, the Center's expenses were \$29,336 more than the \$467,271 generated in revenues. This is more than last year, when expenses exceeded revenues by \$2,609.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management's discussion and analysis (this section) and the basic financial statements.

The basic financial statements of the Center are proprietary fund statements. Proprietary fund statements offer short-and long-term financial information about activities that operate like a business.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Figure A-1 summarizes the major features of the Center's financial statements, including the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(continued)

**Figure A-1**  
**Major Features of the Center's Fund Financial Statements**

	<b>Fund Statements</b>
	<b>Proprietary Funds</b>
Scope	Activities the Center operates similar to private businesses
Required financial statements	Statement of net assets Statement of revenues, expenses, and changes in net assets Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid

**Fund Financial Statements**

The fund financial statements provide detailed information about the Center.

- Proprietary funds-Services for which the Center charges customers a fee are generally reported in proprietary funds. Proprietary funds provide both long- and short-term financial information.

**FINANCIAL ANALYSIS OF THE CENTER AS A WHOLE**

**Net assets.** The Center's combined net assets decreased \$29,336 between fiscal years 2008 and 2009 with an ending balance of \$334,779. (See Table A-1.) In comparison, last year net assets decreased \$2,609.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(continued)

**Table A-1**  
**Washington County - Johnson City Animal Control Center, Inc.'s Net Assets**

	<u>2008</u>	<u>2009</u>	<u>Total Percentage Change</u>
Current and other assets	\$ 211,526	\$ 195,636	-7.5%
Noncurrent assets	195,813	177,980	-9.1%
<b>Total assets</b>	<u>407,339</u>	<u>373,616</u>	-8.3%
Long-term debt outstanding	-	-	
Other liabilities	43,224	38,837	-10.1%
<b>Total liabilities</b>	<u>43,224</u>	<u>38,837</u>	-10.1%
<b>Net assets</b>			
Invested in capital assets	157,113	142,780	-9.1%
Restricted	38,700	35,200	-9.0%
Unrestricted	168,302	156,799	-6.8%
<b>Total net assets</b>	<u>\$ 364,115</u>	<u>\$ 334,779</u>	-8.1%

Net assets of the Center decreased approximately 8.1 percent to \$334,779. However, some of those net assets either are restricted as to the purposes they can be used for or are invested in capital assets (buildings, roads, bridges, and so on). Consequently, unrestricted net assets showed an \$11,503 decrease at the end of this year, and net assets invested in capital assets decreased \$14,333.

**Changes in net assets.** The Center's total revenues decreased by about 1 percent to \$467,271. (See Table A-2.) More than half of the Center's revenue comes from city and county appropriations. Another 21 per cent comes from fees charged for services. Most of the rest is from donations.

The total cost of all programs and services increased approximately \$22,000, or about 5 percent. The Center's expenses cover a range of services, with about half related to salaries.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(continued)

**Table A-2**  
**Washington County - Johnson City Animal Control Center, Inc.'s Revenues and Expenses**

	<u>2008</u>	<u>2009</u>	<u>Total Percentage Change</u>
<b>Revenues</b>			
Charges for Sales and Services	\$ 102,409	\$ 95,912	-6.3%
Appropriations	266,838	292,464	9.6%
Public Donations	88,667	72,960	-17.7%
Investment Income	7,332	12,663	72.7%
State Grant	5,000	-	-100.0%
Unrealized Gain (Loss) on Investments	-	(6,728)	
Insurance Reimbursements	1,401	-	-100.0%
<b>Total revenues</b>	<u><b>471,647</b></u>	<u><b>467,271</b></u>	-0.93%
<b>Expenses</b>			
Accounting and Auditing	4,750	5,375	13.2%
Maintenance - Structures and Equipment	8,340	8,531	2.3%
Depreciation	20,290	19,838	-2.2%
Employee Benefits	47,852	52,982	10.7%
Insurance	21,048	14,929	-29.1%
Office Expenses	10,482	11,700	11.6%
Supplies	39,895	35,954	-9.9%
Other Operating Expenses	11,952	13,448	12.5%
Payroll Taxes	19,572	21,739	11.1%
Salaries	246,849	266,921	8.1%
Utilities	16,656	19,455	16.8%
Vehicle and Travel	26,570	25,735	-3.1%
<b>Total expenses</b>	<u><b>474,256</b></u>	<u><b>496,607</b></u>	4.7%
<b>Increase (Decrease) in Net Assets</b>	<u><b>\$ (2,609)</b></u>	<u><b>\$ (29,336)</b></u>	-102.4%

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(continued)**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

As of June 30, 2009, the Center had invested \$413,857 in capital assets including equipment and building. This amount represents a net increase (including additions and deductions) of \$5,505 or 1.3 percent, over last year.

**Long-term Debt**

At the end of fiscal year 2009, the Center had no long-term debt.

**CONTACTING THE CENTER'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Center's finances and to demonstrate the Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Washington County – Johnson City Animal Control Center, Inc., 525 Sells Avenue, Johnson City, TN 37604.

**WASHINGTON COUNTY - JOHNSON CITY ANIMAL  
CONTROL CENTER, INC.  
Statement of Net Assets  
June 30, 2009**

**ASSETS**

Current Assets:	
Cash and Cash Equivalents	\$ 84,472
Investments	102,149
Accounts Receivable, net	4,357
Prepaid Items	<u>4,658</u>
Total Current Assets	<u>195,636</u>
Noncurrent Assets:	
Cash - Donor Restricted	<u>35,200</u>
Capital Assets:	
Buildings and Equipment	413,857
Less Accumulated Depreciation	<u>(271,077)</u>
Net Buildings and Equipment	<u>142,780</u>
Total Noncurrent Assets	<u>177,980</u>
Total Assets	<u>373,616</u>

**LIABILITIES**

Current Liabilities:	
Accounts Payable	9,936
Spay/Neuter Fees Payable	16,145
Accrued Liabilities	<u>12,756</u>
Total Liabilities	<u>38,837</u>

**NET ASSETS**

Invested in Capital Assets	142,780
Restricted for:	
Capital Projects	35,200
Unrestricted	<u>156,799</u>
Total Net Assets	<u>\$ 334,779</u>

See accompanying notes to financial statements.

**WASHINGTON COUNTY - JOHNSON CITY ANIMAL  
CONTROL CENTER, INC.  
Statement of Revenues,  
Expenses and Changes in Net Assets  
For the Year Ended June 30, 2009**

**OPERATING REVENUES**

Charges for Sales and Services	\$	<u>95,912</u>
Total Operating Revenues		<u>95,912</u>

**EXPENSES**

Program Services-Animal Welfare		<u>416,062</u>
Total Program Services		416,062
Management and General		<u>80,545</u>
Total Expenses		<u>496,607</u>

**NON-OPERATING REVENUE**

City Appropriation		158,000
County Appropriation		132,919
Jonesborough Appropriation		1,545
Public Donations		72,960
Investment Income		12,663
Net Increase (Decrease) in the Fair Value of Investments		<u>(6,728)</u>
Total Nonoperating Revenues		<u>371,359</u>
Change in Unrestricted Net Assets		(25,836)
Change in Restricted Net Assets		(3,500)
Net Assets - Beginning of the Year		<u>364,115</u>
Net Assets - End of the Year	\$	<u><u>334,779</u></u>

See accompanying notes to financial statements.

**WASHINGTON COUNTY - JOHNSON CITY ANIMAL  
CONTROL CENTER, INC.  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2009**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from customers	\$ 94,652
Cash payments to employees for services	(266,887)
Cash payments to suppliers for goods and services	<u>(218,917)</u>
Net cash provided by operating activities	<u>(391,152)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:**

Operating appropriations received	292,464
Unrestricted gifts received	<u>72,960</u>
Net cash provided by noncapital financing activities	<u>365,424</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Purchase of capital assets	<u>(5,505)</u>
Net cash used for capital and related financing activities	<u>(5,505)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest and dividends on investments	12,663
Unrealized Loss on Investments	(6,728)
Purchase of Certificates of Deposit	<u>(102,150)</u>
Net cash provided by investing activities	<u>(96,215)</u>

Net increase in cash and cash equivalents (127,448)

**CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** 247,120

**CASH AND CASH EQUIVALENTS AT END OF PERIOD** \$ 119,672

**Reconciliation of Operating Income to Net Cash Provided by Operating Activities:**

Operating Income	\$ (400,695)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	19,838
Change in assets and liabilities:	
Increase in Accounts Receivable	(1,260)
Decrease in Prepaids	(4,648)
Decrease in Accounts Payable	5,184
Decrease in Spay/Neuter Deposits Payable	(9,605)
Increase in Accrued Liabilities	<u>34</u>
Net cash provided by operating activities	<u>\$ (391,152)</u>

See accompanying notes to financial statements.

**WASHINGTON COUNTY - JOHNSON CITY ANIMAL  
CONTROL CENTER, INC.  
Statement of Functional Expenses  
For the Year Ended June 30, 2009**

	<u>Program Services</u>	<u>2009 Supporting Services Management &amp; General</u>	<u>Total</u>
Accounting and Auditing	\$ -	\$ 5,375	\$ 5,375
Maintenance - Structures and Equipment	6,995	1,536	8,531
Depreciation Expense	18,449	1,389	19,838
Employee Benefits	45,088	7,894	52,982
Insurance	12,242	2,687	14,929
Office Expense	-	11,700	11,700
Supplies	32,502	3,452	35,954
Other Operating Expenses	13,448	-	13,448
Payroll Taxes	18,500	3,239	21,739
Salaries	227,150	39,771	266,921
Utilities	15,953	3,502	19,455
Vehicle and Travel	<u>25,735</u>	<u>-</u>	<u>25,735</u>
 Total Expenses	 <u>\$ 416,062</u>	 <u>\$ 80,545</u>	 <u>\$ 496,607</u>

See accompanying notes to financial statements.

WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Washington County – Johnson City Animal Control Center, Inc. was organized under the laws of the State of Tennessee in April 1985. Its Board of Directors serves as its governing body.

Significant accounting policies follow:

Basis of Accounting – The financial statements have been prepared on the accrual basis of accounting where revenues are recognized when earned rather than when received and expenses are recognized when the obligation is incurred rather than when paid. The Center distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the Center's principal ongoing operations. The principal operating revenues of the Center are charges to customers for services. All revenues not meeting this definition are reported as nonoperating revenues. Operating expenses of the Center include salaries and associated taxes and benefits as well as costs of feeding and caring for the animals and maintaining the Center's buildings, grounds, and equipment.

When both restricted and unrestricted resources are available for use, it is the Center's policy to use restricted resources first, then to use unrestricted resources.

Reporting Entity – The Center enforces the city and state ordinances relating to animal control and animal welfare. The Center also operates an animal shelter providing adoption programs and spay/neutering programs. The Center receives funding from Johnson City, Jonesborough, and Washington County, Tennessee and must comply with the requirements of the funding source entities. However, the Center is not included in any other governmental "reporting entity" as defined by GASB pronouncements. In addition, there are no component units as defined in Governmental Accounting Standards Statement Number 14.

Estimates – The preparation of financial statements in conformity with 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 could differ from those estimates.

Cash and Cash Equivalents – For purposes of the statement of cash flows, the Center considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. The Center maintains a separate investment account for monies designated by the board for future building projects.

WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash – Donor Restricted – At June 30, 2009, \$35,200 of the Center’s cash was restricted by donors for the Building Fund. During the year ending June 30, 2009, there were no private donations to the Building Fund.

Property and Equipment – Property and equipment are recorded at cost for purchased items and at fair market value for donated items. Depreciation, computed principally using the straight-line method, is based on the following estimated useful lives:

Equipment and Vehicles	5 to 10 Years
Building	40 Years

Basis of Presentation – All assets, liabilities, equities, revenues, expenses, and transfers relating to the Center’s businesses are accounted for in a single proprietary fund. The Center’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Center applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 unless they conflict with GASB pronouncements. The Center does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

NOTE 2. LEASE COMMITMENTS

In June, 1986 the Center entered into a lease agreement with the City of Johnson City for land where the Animal Control building is now located. The terms of the lease are \$3 per year for forty years with an option to renew for another forty years as long as the land and any structures are used for animal control purposes.

NOTE 3. INCOME TAXES

The Center is exempt from federal income taxes under the provisions of Internal Revenue Service Code Section 501(c) (3).

NOTE 4. ADVERTISING

The Organization expenses advertising costs as incurred. Total advertising expense for the year ended June 30, 2009 was \$1,057.

WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

NOTE 5. COMPENSATED ABSENCES

Employees of the Center are entitled to paid sick leave. Starting with the first day of employment, all regular full-time employees accrue one day of sick leave each month. Part-time employees accumulate sick leave prorated based on the number of hours worked each week. Temporary employees are not eligible for sick leave. An employee is allowed to accumulate a maximum of ninety days sick leave. Employees have the option of receiving payment, at the employee's regular rate, for those days in excess of sixty days toward the maximum ninety days allowable. Upon the death of an active employee who was eligible for sick leave, one third of the accumulated sick leave will be paid to the employee's beneficiary. Upon termination of an employee, no payment for sick leave will be made. Subsequent to June 30, 2009, no employees exercised the cash option; therefore, no accrued sick leave is included in accrued expenses as of June 30, 2009.

Employees are entitled to paid vacation upon completion of six months of consecutive employment. Full-time employees, with less than fifteen years of service, are entitled to ten days of vacation per year. Full-time employees with fifteen years or more of continuous service are granted fifteen days of vacation per year. Part-time employees are granted vacation time based on the number of days worked. Effective January 1, 2003, vacation time is encouraged to be used by the end of each calendar year. If not used, employees with less than fifteen years of service may carry over into the next calendar year a maximum of 160 hours. Employees with more than fifteen years of service may carry over into the next year a maximum of 240 hours. Part-time employees may carry over a maximum of ten hours a year.

Upon termination, an employee is entitled to accumulated vacation time as earned, on a pro-rata basis. Accrued vacation of \$5,659 is included in accrued expenses as of June 30, 2009.

NOTE 6. INSURANCE

The Center is subject to a variety of claims ranging from workers' compensation claims, employment claims and a multiplicity of other liability claims. The Center has purchased insurance coverage for general liability, personal injury, automobile and workers' compensation. The Center is not covered by insurance of any other governmental entity. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

NOTE 7. RETIREMENT PLAN

Plan Description – Employees of Washington County - Johnson City Animal Control Center, Inc. are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with ten years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after ten years of service and members joining prior to July 1, 1979 become vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Washington County - Johnson City Animal Control Center, Inc. participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/>.

Funding Policy – Washington County - Johnson City Animal Control Center, Inc. has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0 percent of annual covered payroll.

Washington County - Johnson City Animal Control Center, Inc. is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2009 was 11.56% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Washington County - Johnson City Animal Control Center, Inc. is established and may be amended by the TCRS Board of Trustees.

WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

NOTE 7. RETIREMENT PLAN (Continued)

Annual Pension Cost – For the year ending June 30, 2009, Washington County - Johnson City Animal Control Center, Inc's annual pension cost of \$18,740 to TCRS was equal to Washington County - Johnson City Animal Control Center, Inc's required and actual contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. Washington County - Johnson City Animal Control Center, Inc's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2007 was 9 years. An actuarial valuation was performed as of July 1, 2007, which established contribution rates effective July 1, 2008.

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2009	\$18,740	100.00%	\$0
June 30, 2008	\$18,057	100.00%	\$0
June 30, 2007	\$14,353	100.00%	\$0

Funded Status and Funding Progress – As of July 1, 2007, the most recent actuarial valuation date, the plan was 96.56% percent funded. The actuarial accrued liability for benefits was \$320 million, and the actuarial value of assets was \$309 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$11 million. The covered payroll (annual payroll of active employees covered by the plan) was \$136 million, and the ratio of the UAAL to the covered payroll was 8.09% percent.

WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

NOTE 7. RETIREMENT PLAN (Continued)

Funded Status and Funding Progress (Continued) – The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2007	\$ 309	\$ 320	\$ 11	96.56%	\$ 136	8.09%

NOTE 8. BUILDING AND EQUIPMENT

The building and equipment are carried at cost, or in the case of contributed assets, at the fair market value at the time of the gift. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. The Organization's current policy is to capitalize only those assets costing \$1,500 or more with a life greater than one year. Buildings are depreciated over forty years and building improvements over ten years. Equipment is depreciated over five or seven years. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized. Depreciation expense for the year ending June 30, 2009 amounted to \$19,838.

WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

NOTE 8. BUILDING AND EQUIPMENT (continued)

Fixed assets are comprised of the following:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2009</u>
<b>Cost</b>				
Equipment	\$ 48,739	\$ 2,210	\$ -	\$ 50,949
Building and Improvements	260,570	-	-	260,570
Vehicles	<u>99,043</u>	<u>3,295</u>	-	<u>102,338</u>
Total Cost	<u>408,352</u>	<u>5,505</u>	-	<u>413,857</u>
<b>Accumulated Depreciation</b>				
Equipment	34,688	4,760	-	39,448
Building and Improvements	126,720	10,216	-	136,936
Vehicles	<u>89,831</u>	<u>4,862</u>	-	<u>94,693</u>
Total Accumulated Depreciation	<u>251,239</u>	<u>19,838</u>	-	<u>271,077</u>
Net Buildings and Equipment	<u>\$ 157,113</u>	<u>\$ (14,333)</u>	<u>\$ -</u>	<u>\$ 142,780</u>

NOTE 9. DEPOSITS AND INVESTMENTS

Investments are summarized as follows:

	<u>June 30, 2009</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>
<b>Unrestricted:</b>			
Cash and Institutional Fund:	\$ 66,245	\$ 66,245	\$ 66,245
Certificates of Deposit - Maturity Dates Greater Than 3 Months	<u>102,149</u>	<u>102,149</u>	<u>102,149</u>
Total	<u>\$ 168,394</u>	<u>\$ 168,394</u>	<u>\$ 168,394</u>

WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

NOTE 9. DEPOSITS AND INVESTMENTS (continued)

The following schedule summarizes the investment return and its classification in the statement of revenues, expenses, and changes in net assets:

	2009	
	Unrestricted	Total
Interest and Dividend	\$ 12,593	\$ 12,593
Unrealized (Losses)	(6,728)	(6,728)
	\$ 5,865	\$ 5,865

Authorized investments include:

1. investment firms for institutions, bonds, notes or treasury bills of the United States;
2. nonconvertible debt securities of the following issuers: provided such securities are rated in the highest category by at least two nationally recognized rating services: the federal business loan bank; the federal national mortgage association; the federal farm credit bank;
3. any other obligations not listed above which are guaranteed as to principal and interest by the United States or any of its agencies;
4. certificates of deposit and other evidences of deposit at state and federally chartered banks and savings and loan associations. Notwithstanding any other public or private act to the contrary, all investments made pursuant to this subdivision shall be secured by collateral in the same manner and under the same conditions as state deposits under title 9, chapter 4, parts 1 and 4, or as provided in a collateral pool created under title 9, chapter 4, part 5;
5. obligations of the United States or its agencies under a repurchase agreement for a shorter time than the maturity date of the security itself if the market value of the security itself is more than the amount of funds invested; provided, that the Center's Board may invest in repurchase agreements only if the state director of local finance approves repurchase agreements as an authorized investment, and if such investments are made in accordance with procedures established by the state funding board;
6. the local government investment pool created by title 9, chapter 4, part 7.

Custodial credit risk

The Center maintains deposit accounts at one commercial bank and at one brokerage firm in Johnson City, Tennessee. On October 3, 2008 the FDIC deposit insurance temporarily increased from \$100,000 to \$250,000 per depositor through December 31, 2009. On January 1, 2010 FDIC deposit insurance for all deposit accounts – except for certain retirement accounts – will return to at least \$100,000 per depositor. The certificates of deposit included in the brokerage account are insured through the FDIC and are not obligations of the brokerage firm. The cash accounts at the brokerage firm are guaranteed by the Securities Investor Protection Corporation up to \$100,000.

WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

NOTE 9. DEPOSITS AND INVESTMENTS (continued)

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Center had no interest rate risk for its investments at June 30, 2009.

Credit risk

Credit risk is defined as the risk that an issuer or other counterparts to an investment in debt securities will not fulfill its obligation. The Center had no credit risk for its investments at June 30, 2009.

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment in a single issuer. The Center had no concentration of credit risk for its investments at June 30, 2009.

Foreign currency risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value, as a result of changes in foreign currency exchange rates. The Center had no foreign currency risk for its investments at June 30, 2009.

NOTE 10. ECONOMIC DEPENDENCE

The Center receives the majority of its revenue from Johnson City and Washington County, Tennessee and must comply with the requirements of these funding source entities.

NOTE 11. FAIR VALUE MEASUREMENTS

Effective June 30, 2009, we adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, which provides a framework for measuring fair value under GAAP. SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2009

NOTE 11. FAIR VALUE MEASUREMENTS (continued)

Fair values of assets measured on a recurring basis at June 30, 2009 are as follows:

	<u>Fair Value Measurements at Reporting Date Using</u>			
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments - Unrestricted	\$ 102,149	\$ 102,149	\$ -	\$ -
<b>Total Assets</b>	<b>\$ 102,149</b>	<b>\$ 102,149</b>	<b>\$ -</b>	<b>\$ -</b>

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Financial assets using level 3 inputs are primarily valued using management’s assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are applied using the market approach for investments. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

NOTE 12. RELATED PARTY TRANSACTIONS

Husbands of two of the Center’s employees performed maintenance services totaling \$2,150 for the Center for the fiscal year ended June 30, 2009.

NOTE 13. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 28, 2009, which is the date the financial statements were available to be issued.

WASHINGTON COUNTY - JOHNSON CITY ANIMAL CONTROL CENTER, INC.  
 Schedule of Funding Progress - Employee Retirement System

Washington County - Johnson City Animal Control Center, Inc. Employees' Pension Plan

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
July 1, 2007	\$ 309	\$ 320	\$ 11	96.56%	\$ 136	8.09%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the schedule of funding progress using the entry age actuarial cost method. The requirement to present the schedule of funding progress using the entry age actuarial cost method change was made during the year of the most recent actuarial valuation date, therefore only the most current year is presented.

See independent auditors' report.



**Eddy & Eddy**

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AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

**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**

To the Board of Directors of the  
Washington County - Johnson City Animal Control Center, Inc.  
Johnson City, Tennessee

We have audited the financial statements of the Washington County - Johnson City Animal Control Center, Inc. (a Tennessee nonprofit organization) as of and for the year ended June 30, 2009, and have issued our report thereon dated October 28, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Washington County - Johnson City Animal Control Center, Inc.'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 Washington County - Johnson City Animal Control Center, Inc.'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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

(Continued)

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Center's financial statements that is more than inconsequential will not be prevented or detected by the Center's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

**Finding 2009-1 – Materially Misstated Financial Statements (Repeated from the Prior Year)**

Criteria: Financial statements should be free of material misstatements.

Condition: Four auditor proposed adjustments were material individually: to reclassify expired spay/neuter fees, to record depreciation expense, to reverse the prior year's wage and vacation accrual, and to record the current year's wage and vacation accrual.

Amount: The expired spay/neuter fees amounted to \$19,414; depreciation amounted to \$19,838; the prior year wage and vacation amount not reversed was \$10,953; and this year's wage and vacation accrual amounted to \$12,386.

Effect: Before adjustments were recorded, the Center's assets were overstated by \$19,838; liabilities were overstated by \$13,986; revenues were understated by \$19,414; expenses were understated by \$25,266; and working capital was understated by \$13,986.

Cause: The Center did not record any year-end adjustments.

Recommendation: We recommend that the Center record year-end adjustments.

Views of Responsible Officials: We need more direction and instructions on how to do these adjustments.

This finding was also reported as Finding 2008-1 in the prior year's audit report.

(Continued)

**Finding 2009-2 – Organizational Structure (Repeated from the Prior Year):**

Criteria: The Organization should provide a structure to accommodate appropriate segregation of duties and establish effective oversight procedures. Canceled checks or check copies should be obtained for all disbursements.

Condition: The size of the Organization's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. No new internal controls were implemented during this fiscal year. No evidence of effective Board oversight was discovered during audit procedures. Center staff did not obtain canceled checks or check copies of all disbursements.

Amount: No dollar amount is associated with this finding.

Effect: Because the lack of segregation of duties is not mitigated by effective Board oversight, fraud opportunities remain. In addition, there is an increased likelihood that material misstatements will not be detected in a timely manner by personnel in the normal course of performing their duties.

Cause: Proper segregation of duties is difficult to maintain because of the small office staff. The Board did not implement any effective oversight controls.

Recommendation: As much as possible, we recommend related job duties be delegated among personnel. A designated Board member should review bank statements and canceled checks/check copies before the employee preparing bank reconciliations receives them. This designated Board member should also review bank reconciliations after they have been prepared by Center staff, journal entries, invoices submitted for payments, and cash receipts. These reviews should be conducted periodically throughout the year. The Board member designated for performing these reviews should document his/her review by signing/initialing and dating the documents reviewed. Canceled checks, check copies, or a CD with the canceled checks recorded on it should be obtained from the bank each month.

Views of Responsible Officials: Terry Paduch as a Board member reviews records periodically matches checks to invoices.

This finding was also reported as Finding 2008-2 in the prior year's audit report.

(Continued)

**Finding 2009-3 – Evaluation/Mitigation of Risk:**

Criteria: Mechanisms should be in place to identify risks applicable to the Center and financial reporting objectives.

Condition: There is no evidence the Center’s management has evaluated and/or mitigated risk.

Amount: No dollar amount is associated with this finding.

Effect: By not evaluating and/or mitigating risk, the risk of fraud increases. In addition, there is an increased likelihood material misstatements will not be detected in a timely manner by personnel in the normal course of performing their duties.

Cause: The Center’s management has not evaluated and/or mitigated risk.

Recommendation: We recommend the Center’s management identify risks and establish and implement internal control procedures to reduce identified risks. This process should be documented in the Board’s minutes.

Views of Responsible Officials: I have implemented a different system for less people handling money at the center. Being such a small organization it is not possible to spread out jobs, I did not discuss this issue at the board meeting to reflect in meeting minutes. I will in the future.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Center’s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 2009-1 to be a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Washington County - Johnson City Animal Control Center, Inc.’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*.

(Continued)

We noted certain matters that we reported to management of the Washington County – Johnson City Animal Control Center, Inc. in a separate letter dated October 28, 2009.

The Washington County - Johnson City Animal Control Center, Inc.'s response to the findings identified in our audit is described above. We did not audit the Washington County - Johnson City Animal Control Center, Inc.'s response and, accordingly, we express no opinion on it.

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

*Eddy & Eddy, CPA's, P.C.*

Eddy & Eddy, CPA's, P.C.  
Johnson City, Tennessee  
October 28, 2009