

WASHINGTON COUNTY-JOHNSON CITY
ANIMAL CONTROL CENTER, INC.

Johnson City, Tennessee

FINANCIAL STATEMENTS

June 30, 2011

WASHINGTON COUNTY – JOHNSON CITY
ANIMAL CONTROL CENTER, INC.

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November 29, 2011

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, CPAs, 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, 2011, 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, 2011, are fairly presented in conformity with GAAP. The independent auditors' 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, 2011, the shelter took in 8,171 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

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



Eddy & Eddy

CERTIFIED PUBLIC ACCOUNTANTS

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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 Washington County – Johnson City Animal Control Center, Inc. (a Tennessee nonprofit organization) and the related statements of revenues, expenses, and changes in net assets, and cash flows as of and for the year ended June 30, 2011, which collectively comprise the Center's financial statements as listed in the table of contents. These financial statements are the responsibility of Washington County – Johnson City Animal Control Center, Inc.'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 Washington County – Johnson City Animal Control Center, Inc., as of June 30, 2011, and the changes in net assets and cash flows thereof 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 November 29, 2011, on our consideration of Washington County – Johnson City Animal Control Center, Inc.'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 and the schedule of funding progress – employee retirement system information on pages 6 through 10 and page 23 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 Washington County – Johnson City Animal Control Center, Inc.'s financial statements as a whole. The introductory section and the supplemental section are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of functional expenses on page 24 has been subjected to the auditing procedures applied in the audit of the 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 information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section on pages 1 through 3 has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Eddy + Eddy

Eddy & Eddy, CPAs, P.C.
Johnson City, Tennessee
November 29, 2011

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, 2011. 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 \$26,855 during the fiscal year. Unrestricted net assets decreased \$26,855.
- During the year, the Center's expenses were \$26,855 more than the \$496,218 generated in revenues. This is more than last year, when expenses exceeded revenues by \$15,997.

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**

	Fund Statements
	Proprietary Funds
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 \$26,855 between fiscal years 2010 and 2011 with an ending balance of \$291,927. (See Table A-1.) In comparison, last year net assets decreased \$15,997.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)

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

	<u>2010</u>	<u>2011</u>	<u>Total Percentage Change</u>
Current and other assets	\$ 193,755	\$ 176,141	-9.1%
Noncurrent assets	<u>160,100</u>	<u>151,210</u>	-5.6%
Total assets	<u>353,855</u>	<u>327,351</u>	-7.5%
Long-term debt outstanding	-	-	
Other liabilities	<u>35,073</u>	<u>35,424</u>	1.0%
Total liabilities	<u>35,073</u>	<u>35,424</u>	1.0%
Net assets			
Invested in capital assets	124,900	116,010	-7.1%
Restricted	35,200	35,200	0.0%
Unrestricted	<u>158,682</u>	<u>140,717</u>	-11.3%
Total net assets	<u>\$ 318,782</u>	<u>\$ 291,927</u>	-8.4%

Net assets of the Center decreased approximately 8.4 percent to \$291,927. 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 a \$17,965 decrease at the end of this year, and net assets invested in capital assets decreased \$8,890.

Changes in net assets. The Center's total revenues decreased by about 0.3 percent to \$496,218. (See Table A-2.) More than 63 percent of the Center's revenue comes from city and county appropriations. Approximately 18 percent comes from fees charged for services. Most of the rest is from donations.

The total cost of all programs and services increased approximately \$9,000, or about 1.8 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>2010</u>	<u>2011</u>	<u>Total Percentage Change</u>
Revenues			
Charges for Sales and Services	\$ 80,900	\$ 87,572	8.2%
Appropriations	315,919	315,919	0.0%
Insurance Reimbursements	-	46	
Public Donations	99,715	89,830	-9.9%
Investment Income	1,275	1,437	12.7%
Unrealized Gain (Loss) on Investments	-	1,414	
Total revenues	<u>497,809</u>	<u>496,218</u>	-0.3%
Expenses			
Professional Services	5,700	7,130	25.1%
Maintenance - Structures and Equipment	8,049	10,420	29.5%
Depreciation	17,880	14,675	-17.9%
Employee Benefits	52,350	56,553	8.0%
Insurance	14,044	10,704	-23.8%
Office Expenses	10,998	11,472	4.3%
Supplies	53,004	46,350	-12.6%
Other Operating Expenses	12,888	9,513	-26.2%
Payroll Taxes	23,968	24,024	0.2%
Salaries	273,560	280,623	2.6%
Utilities	18,287	20,318	11.1%
Vehicle and Travel	23,078	31,291	35.6%
Total expenses	<u>513,806</u>	<u>523,073</u>	1.8%
Increase (Decrease) in Net Assets	<u>\$ (15,997)</u>	<u>\$ (26,855)</u>	-67.9%

MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2011, the Center had invested \$419,642 in capital assets including equipment and building. This amount represents an increase of \$5,785 from last year.

Long-term Debt

At the end of fiscal year 2011, 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, 2011**

ASSETS

Current Assets:	
Cash and Cash Equivalents	\$ 25,933
Investments	142,303
Accounts Receivable, net	3,321
Prepaid Items	<u>4,584</u>
Total Current Assets	<u>176,141</u>
Noncurrent Assets:	
Donor Restricted Investments	<u>35,200</u>
Capital Assets:	
Buildings and Equipment	419,642
Less Accumulated Depreciation	<u>(303,632)</u>
Net Buildings and Equipment	<u>116,010</u>
Total Noncurrent Assets	<u>151,210</u>
Total Assets	<u>327,351</u>

LIABILITIES

Current Liabilities:	
Accounts Payable	10,675
Spay/Neuter Fees Payable	9,375
Accrued Liabilities	<u>15,374</u>
Total Liabilities	<u>35,424</u>

NET ASSETS

Invested in Capital Assets	116,010
Restricted for:	
Capital Projects	35,200
Unrestricted	<u>140,717</u>
Total Net Assets	<u>\$ 291,927</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, 2011**

OPERATING REVENUES	
Charges for Sales and Services	\$ <u>87,572</u>
 Total Operating Revenues	 <u>87,572</u>
EXPENSES	
Accounting and Auditing	5,930
Other Professional Services	1,200
Maintenance - Structures and Equipment	10,420
Depreciation Expense	14,675
Employee Benefits	56,553
Insurance	10,704
Office Expense	11,472
Supplies	46,350
Other Operating Expenses	9,513
Payroll Taxes	24,024
Salaries	280,623
Utilities	20,318
Vehicle and Travel	<u>31,291</u>
 Total Expenses	 <u>523,073</u>
 Operating Income (Loss)	 <u>(435,501)</u>
NON-OPERATING REVENUE	
City Appropriation	158,000
County Appropriation	157,919
Insurance Reimbursements	46
Public Donations	89,830
Investment Income	1,437
Net Increase (Decrease) in the Fair Value of Investments	<u>1,414</u>
 Total Nonoperating Revenues	 <u>408,646</u>
 Change in Unrestricted Net Assets	 (26,855)
Net Assets - Beginning of the Year	<u>318,782</u>
 Net Assets - End of the Year	 <u>\$ 291,927</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, 2011**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 91,448
Cash payments to employees for services	(281,060)
Cash payments to suppliers for goods and services	<u>(225,812)</u>
Net cash used for operating activities	<u>(415,424)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Operating appropriations received	315,919
Unrestricted gifts received	89,830
Proceeds from insurance reimbursements	<u>46</u>
Net cash provided by noncapital financing activities	<u>405,795</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of capital assets	<u>(5,785)</u>
Net cash used for capital and related financing activities	<u>(5,785)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest and dividends on investments	1,335
Certificates of deposit purchases	(222,270)
Certificates of deposit maturities	<u>68,421</u>
Net cash used for investing activities	<u>(152,514)</u>

Net decrease in cash and cash equivalents (167,928)

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD 193,861

CASH AND CASH EQUIVALENTS AT END OF PERIOD \$ 25,933

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

Operating Income	\$ (435,501)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	14,675
Change in assets and liabilities:	
Decrease in Accounts Receivable	3,876
Decrease in Prepaids	1,175
Increase in Accounts Payable	3,403
Decrease in Spay/Neuter Deposits Payable	(2,615)
Decrease in Accrued Liabilities	<u>(437)</u>
Net cash used for operating activities	<u>\$ (415,424)</u>

See accompanying notes to financial statements.

WASHINGTON COUNTY – JOHNSON CITY
ANIMAL CONTROL CENTER, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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.

Investment Valuation – Investments are recorded at fair value determined by reference to published market data.

WASHINGTON COUNTY – JOHNSON CITY
ANIMAL CONTROL CENTER, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the schedule of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Cash – Donor Restricted – At June 30, 2011, \$35,200 of the Center’s cash was restricted by donors for the Building Fund. During the year ending June 30, 2011, 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, 2011 was \$636.

WASHINGTON COUNTY–JOHNSON CITY
ANIMAL CONTROL CENTER, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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, 2011, no employees exercised the cash option; therefore, no accrued sick leave is included in accrued expenses as of June 30, 2011.

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. Vacation time is encouraged to be used by the end of each calendar year. Employees with less than fifteen years of service may carry over into the next calendar year a maximum of 160 unused 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 \$5,257 is included in accrued expenses as of June 30, 2011.

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, 2011

NOTE 7. RETIREMENT PLAN

Plan Description – Employees of Washington County - Johnson City Animal Control Center, Inc. who were employed as of July 21, 2009 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 were 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, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

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, 2011 was 11.26% 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, 2011

NOTE 7. RETIREMENT PLAN (Continued)

Annual Pension Cost – For the year ending June 30, 2011, Washington County - Johnson City Animal Control Center, Inc's annual pension cost of \$20,174 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, 2009 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 3.0 percent annual rate of inflation, (c) 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), and (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 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 ten-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, 2009 was 7 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

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, 2011	\$20,174	100.00%	\$0
June 30, 2010	\$20,380	100.00%	\$0
June 30, 2009	\$18,740	100.00%	\$0

Funded Status and Funding Progress – As of July 1, 2009, the most recent actuarial valuation date, the plan was 95.24% percent funded. The actuarial accrued liability for benefits was \$0.4 million, and the actuarial value of assets was \$0.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.0 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.2 million, and the ratio of the UAAL to the covered payroll was 11.08% percent.

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.

WASHINGTON COUNTY – JOHNSON CITY
ANIMAL CONTROL CENTER, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 7. RETIREMENT PLAN (Continued)

Funded Status and Funding Progress (Continued)

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 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, 2009	\$ 359	\$ 377	\$ 18	95.24%	\$ 162	11.08%
July 1, 2007	\$ 309	\$ 326	\$ 17	94.79%	\$ 136	12.50%

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, 2011 amounted to \$14,675.

WASHINGTON COUNTY – JOHNSON CITY
ANIMAL CONTROL CENTER, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 8. BUILDING AND EQUIPMENT (continued)

Fixed assets are comprised of the following:

	Balance <u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2011</u>
Cost				
Equipment	\$ 50,949	\$ -	\$ -	\$ 50,949
Building and Improvements	260,570	-	-	260,570
Vehicles	<u>102,338</u>	<u>5,785</u>	-	<u>108,123</u>
Total Cost	<u>413,857</u>	<u>5,785</u>	-	<u>419,642</u>
Accumulated Depreciation				
Equipment	43,945	3,068	-	47,013
Building and Improvements	147,153	10,006	-	157,159
Vehicles	<u>97,859</u>	<u>1,601</u>	-	<u>99,460</u>
Total Accumulated Depreciation	<u>288,957</u>	<u>14,675</u>	-	<u>303,632</u>
Net Buildings and Equipment	<u>\$ 124,900</u>	<u>\$ (8,890)</u>	<u>\$ -</u>	<u>\$ 116,010</u>

NOTE 9. DEPOSITS AND INVESTMENTS

Deposits and investments are summarized as follows:

	<u>June 30, 2011</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Unrestricted:			
Deposits at Financial Institutions	\$ 25,636	\$ 25,636	\$ 25,636
Broker Cash and Institutional Funds	<u>297</u>	<u>297</u>	<u>297</u>
Total Cash and Equivalents	25,933	25,933	25,933
Certificates of Deposit with Maturity			
Dates Greater Than 3 Months	<u>140,787</u>	<u>142,303</u>	<u>142,303</u>
Total Unrestricted	166,720	168,236	168,236
Restricted:			
Certificates of Deposit with Maturity			
Dates Greater Than 3 Months	<u>35,200</u>	<u>35,200</u>	<u>35,200</u>
Total	<u>\$ 201,920</u>	<u>\$ 203,436</u>	<u>\$ 203,436</u>

WASHINGTON COUNTY – JOHNSON CITY
ANIMAL CONTROL CENTER, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 9. DEPOSITS AND INVESTMENTS (continued)

Investment income for the year ended June 30, 2011, which is classified as non-operating income in the statement of revenues, expenses and changes in net assets, consisted of \$1,437 interest on cash and certificates of deposit.

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. The deposit accounts at the commercial bank are insured through the FDIC up to \$250,000. The certificates of deposit included in the brokerage account are insured through the FDIC up to \$250,000. The cash accounts at the brokerage firm are guaranteed by the Securities Investor Protection Corporation up to \$250,000. All of the Center's deposits were fully insured at June 30, 2011.

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, 2011.

WASHINGTON COUNTY – JOHNSON CITY
ANIMAL CONTROL CENTER, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 9. DEPOSITS AND INVESTMENTS (continued)

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, 2011.

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, 2011.

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, 2011.

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. RELATED PARTY TRANSACTIONS

Husbands of two of the Center's employees performed maintenance services totaling \$2,440 for the Center for the fiscal year ended June 30, 2011.

NOTE 12. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 29, 2011, 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
For the Year Ended June 30, 2011**

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, 2009	\$ 359	\$ 377	\$ 18	95.24%	\$ 162	11.08%
July 1, 2007	\$ 309	\$ 326	\$ 17	94.79%	\$ 136	12.50%

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 went into affect during the year of the 2007 actuarial valuation, therefore only the two most recent valuations are presented.

See independent auditors' report.

**WASHINGTON COUNTY - JOHNSON CITY ANIMAL
CONTROL CENTER, INC.**

Schedule of Functional Expenses

For the Year Ended June 30, 2011

	<u>Program Services</u>	<u>Supporting Services Management & General</u>	<u>Total</u>
Accounting and Auditing	\$ -	\$ 5,930	\$ 5,930
Other Professional Services	-	1,200	1,200
Maintenance - Structures and Equipment	8,544	1,876	10,420
Depreciation Expense	13,648	1,027	14,675
Employee Benefits	48,127	8,426	56,553
Insurance	8,777	1,927	10,704
Office Expense	-	11,472	11,472
Supplies	41,900	4,450	46,350
Other Operating Expenses	9,513	-	9,513
Payroll Taxes	20,445	3,579	24,024
Salaries	238,810	41,813	280,623
Utilities	16,661	3,657	20,318
Vehicle and Travel	31,291	-	31,291
	<hr/>	<hr/>	<hr/>
Total Expenses	\$ 437,716	\$ 85,357	\$ 523,073

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



Eddy & Eddy

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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
Washington County – Johnson City Animal Control Center, Inc.
Johnson City, Tennessee

We have audited the statement of net assets of Washington County – Johnson City Animal Control Center, Inc. (a Tennessee nonprofit organization) and the related statements of revenues, expenses, and changes in net assets, and cash flows as of and for the year ended June 30, 2011, which collectively comprise Washington County – Johnson City Animal Control Center, Inc.'s financial statements and have issued our report thereon dated November 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 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 Washington County – Johnson City Animal Control Center, Inc.'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 was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency to be a material weakness:

Finding 2011-1 – Material Auditor-proposed Adjusting Entries

Condition: While client-prepared financial statements were not materially misstated before posting auditor-proposed adjusting entries, two auditor-proposed adjusting entries were individually material to total liabilities, expenses, change in net assets, and working capital.

Criteria: Auditors considered \$11,000 or greater to be material to the financial statements.

Cause: The organization failed to post the reversing entry for prior year payroll accruals and also failed to record current year payroll accruals.

Effect: The two individually-material entries offset each other so that the net result was not material to the financial statements.

Recommendation: We recommend that all accruals and deferrals be reversed on the first day of the next fiscal year and that all accruals and deferrals be recorded on the last day of the current fiscal year.

Views of Responsible Officials: We will post entries for accruals and deferrals on the last day of the fiscal year and reverse accruals and deferrals on the first day of the next fiscal year, as required.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency to be a significant deficiency:

Finding 2011-2 – Internal Control over Cash Receipts

Condition: Cash receipts testing revealed some exceptions to the organization's internal control procedures.

Criteria: The organization's internal control procedures over cash receipts, including: person(s) taking deposits to the bank should initial and date deposit slips; all receipts should be deposited within three banking days; a designated board member should review all receipts quarterly.

Cause: The reports used for quarterly board review omitted all spay/neuter account transactions and September 2010 auxiliary account transactions. Persons taking deposits to the bank did not always initial and date deposit slips. The organization did not always deposit receipts within three banking days.

Effect: Eleven cash receipts test selections (from a sample of sixty receipts) were not board reviewed. Two deposit slips for test selections did not contain the initials and date of persons taking the deposits to the bank. Twenty-eight test selections were held more than three banking days before being deposited. These exceptions indicate increased risk of cash receipts loss through fraud or error.

Recommendation: We recommend that all receipts to all cash accounts be included in the printouts for quarterly board reviews. We also recommend that all receipts be deposited within three banking days of receipt and that persons taking deposits to the bank always initial and date the deposit slips.

Views of Responsible Officials: We will follow the auditors' recommendations and direction.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

We noted certain other matters that we reported to management of Washington County – Johnson City Animal Control Center, Inc. in a separate letter dated November 29, 2011.

Washington County – Johnson City Animal Control Center, Inc.'s response to the findings identified in our audit is described above. We did not audit 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 management, Board of Directors, 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

Eddy & Eddy, CPAs, P.C.
Johnson City, Tennessee

November 29, 2011