SULLIVAN COUNTY, BLUFF CITY, KINGSPORT ANIMAL CONTROL CENTER, INC.

Kingsport, Tennessee

FINANCIAL STATEMENTS

June 30, 2013

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DENT K. BURK ASSOCIATES, P.C.
Certified Public Accountants

BRISTOL, VIRGINIA
KINGSPORT, TENNESSEE
JOHNSON CITY, TENNESSEE
GRUNDY, VIRGINIA

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Sullivan County, Bluff City, Kingsport Animal Control Center, Inc.
Kingsport, Tennessee

Report on the Financial Statements

We have audited the accompanying statement of net position of Sullivan County, Bluff City, Kingsport Animal Control Center, Inc. (a Tennessee nonprofit organization), and the related statements of revenues, expenses and changes in net position, and cash flows as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

No accounting controls were exercised over the deposits of daily operation income or donations at the Sullivan County Blountville location prior to the initial entry of such income into the accounting records and the majority of the supporting documentation of the daily deposits for that location were destroyed. We were unable to obtain sufficient appropriate audit evidence about the amounts recognized for the daily operation income or

the donations received. Consequently, we were unable to determine whether any adjustments to those amounts were necessary. Also, due to the number of missing invoices and differences between checks written and the invoiced amounts, we were unable to determine whether the expenses were materially misstated.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Sullivan County, Bluff City, Kingsport Animal Control Center, Inc. as of June 30, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Sullivan County, Bluff City, Kingsport Animal Control Center, Inc.'s financial statements. The supplemental section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental section is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The supplemental section 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 supplemental section on page 15 is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2014, on our consideration of Sullivan County, Bluff City, Kingsport 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* in considering Sullivan County, Bluff City, Kingsport Animal Control Center, Inc.'s internal control over financial reporting and compliance.

Dent K. Burk Associates P.C.
Certified Public Accountants

Kingsport, Tennessee
August 15, 2014

SULLIVAN COUNTY, BLUFF CITY, KINGSPORT ANIMAL CONTROL CENTER, INC.
Kingsport, Tennessee
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013

This section of Sullivan County, Bluff City, Kingsport Animal Control Center's (SBK Center) annual financial report presents our discussion and analysis of the financial performance during the fiscal year that ended on June 30, 2013. Please read it in conjunction with the transmittal letter at the front of this report and the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The SBK Center's total net position decreased by $64,119 during fiscal year. Unrestricted net position decreased $58,691.
- During the year, the expenses were $64,119 more than the $715,250 generated in revenues. This is $217,651 less than last year, when revenues exceeded expenses by $153,532.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and supplemental information.

The basic financial statements of the SBK 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 summaries the major features of the SBK 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.

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

	Fund Statements Proprietary Funds
Scope	Activities the SBK Center operates similar to private businesses
Required Financial Statements	State of net position Statement of revenues, expenses, and changes in fund net position Statement of cash flow
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 SBK Center.

Proprietary Funds-Services for which the SBK 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 SBK CENTER AS A WHOLE

Net position. The SBK Center's combined net position decreased $64,119 between fiscal years 2012 and 2013 with an ending balance of $156,981 (see Table A-1). In comparison, last year's net position increased $188,998.

Table A-1
Sullivan County, Bluff City, Kingsport Animal Control Center

	2013	2012	Total Percentage Change
Current and other assets	$168,390	$229,167	-27.10%
Noncurrent assets	25,638	26,630	-3.70%
Total assets	$194,028	$255,797	-24.10%
Long-term debt outstanding	$ -	$ -	-%
Other liabilities	35,146	32,036	-9%
Total liabilities	$ 35,146	$ 32,036	-9%
Net position			
Invested in capital assets	25,638	26,630	-3.80%
Restricted	564	5,000	-11%
Unrestricted	130,779	189,470	-31%
Total net position	$156,981	$221,100	-29%

Net position of the SBK Center decreased approximately .29% to $156,981. Some of the components of net position either are restricted as to the purposes they can be used for or are invested in capital assets. Unrestricted net position showed a $58,691 decrease at the end of this year, and net position invested in capital assets decreased $992.

Changes in net position. The SBK Center's total revenues decreased by about 1.3% to $715,250 (see Table A-2). Approximately 68% of the SBK Center's revenue comes from city and county appropriations. Approximately 23% comes from fees charged for services. Most of the rest is from donations.

The total cost of all programs and services increased approximately $208,500 or above $36.5%. The SBK Center's expenses cover a range of services with about half related to salaries.

SULLIVAN COUNTY, BLUFF CITY, KINGSPORT ANIMAL CONTROL CENTER, INC.
Kingsport, Tennessee
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Table A-2

	2013	2012	Total Percentage Change
Revenues			
Investment income	$ 839	$ 768	9.3%
In-kind use of facilities	24,000	23,998	
City and county appropriations	485,317	485,317	-%
Public donations and grants	41,212	38,002	8.4%
Charges for service	163,882	176,239	-7.5%
Total assets	$715,250	$724,324	-1.3%
Expenses			
Contract services	$152,996	$144,121	6.2%
Depreciation	8,195	8,836	-7.8%
Insurance	39,912	24,047	66.0%
Facilities rent	24,000	24,000	-%
Medicine, drugs, vaccinations	17,629	19,008	-17.8%
Occupancy expenses	44,000	29,347	50.0%
Office expense	16,287	7,765	89.3%
Payroll taxes	27,532	18,467	48.9%
Repairs and maintenance	15,209	12,806	18.77%
Salaries and wages	294,487	184,906	59.2%
Supplies	32,768	18,168	80.3%
Telephone and answering services	11,287	11,071	1.9%
Vehicle and travel	26,248	21,926	19.7%
Veterinarian services	60,002	42,526	41.1%
Other operating services	8,817	3,798	132.1%
Total liabilities	$779,369	$570,792	36.5%
Net position	(64,119)	153,532	
Transfer of vehicles from city and county	-	35,466	
Increase/decrease in net position	$ (64,119)	$188,998	

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2013, the SBK Center had $25,638 in capital assets.

Long-Term Debt

At the end of fiscal year 2013, the SBK Center had no long-term debt.

CONTACTING THE SBK CENTER'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the SBK Center's finances and to demonstrate the SBK Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Sullivan County, Bluff City, Kingsport Animal Control Center, 2141 Idle Hour Road, Kingsport, Tennessee 37660.

SULLIVAN COUNTY, BLUFF CITY, KINGSPORT ANIMAL CONTROL CENTER, INC.
Kingsport, Tennessee
STATEMENT OF NET POSITION
June 30, 2013 and 2012

	2013	2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 161,178	$221,068
Accounts receivable, net	2,475	1,440
Prepaid expenses	4,173	1,659
Total current assets	167,826	224,167
RESTRICTED ASSETS:		
Restricted cash and cash equivalents	564	5,000
Total donor restricted funds	564	5,000
NON-CURRENT ASSETS:		
Capital Assets:		
Equipment	1,703	-
Vehicles	126,262	120,762
	127,965	120,762
Less: Accumulated depreciation	(102,327)	(94,132)
Total capital assets	25,638	26,630
Total noncurrent assets	25,638	26,630
Total assets	194,028	255,797
DEFERRED OUTFLOWS OF RESOURCES	-	-
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	23,714	17,237
Accrued liabilities	11,432	14,799
Total liabilities	35,146	32,036
DEFERRED INFLOWS OF RESOURCES	1,901	2,661
NET POSITION:		
Net investment in capital assets	25,638	26,630
Restricted for:		
Low income spay/neuter fees	564	5,000
Unrestricted	130,779	189,470
Total net position	$ 156,981	$221,100

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

SULLIVAN COUNTY, BLUFF CITY, KINGSPORT ANIMAL CONTROL CENTER, INC.
Kingsport, Tennessee
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
For the Year Ended June 30, 2013 and 2012

	2013	2012
OPERATING REVENUES:		
Charges for services	$ 163,882	$ 176,239
Total operating revenues	163,882	176,239
OPERATING EXPENSES:		
Contract services	152,996	144,121
Depreciation	8,195	8,836
Facilities rent	24,000	24,000
Insurance	39,912	24,047
Medicine, drugs, and vaccinations	17,629	19,008
Occupancy expenses	44,000	29,347
Office expense	16,287	7,765
Payroll taxes	27,532	18,467
Repairs and maintenance	15,209	12,806
Salaries and wages	294,487	184,906
Supplies	32,768	18,168
Telephone and answering service	11,287	11,071
Vehicle and travel	26,248	21,926
Veterinarian services	60,002	42,526
Other operating expenses	8,817	3,798
Total expenses	779,369	570,792
Operating income (loss)	(615,487)	(394,553)
NONOPERATING REVENUE		
City appropriation	170,800	170,800
County appropriation	314,517	314,517
In-kind use of facilities	24,000	23,998
Public donations & grants	41,212	38,002
Investment income	839	768
Total nonoperating revenues	551,368	548,085
Increase (decrease) in net position before capital contributions	(64,119)	153,532
CAPITAL CONTRIBUTIONS		
Transfer of vehicles from city and county government	-	35,466
INCREASE (DECREASE) IN NET POSITION	(64,119)	188,998
TOTAL NET POSITION - BEGINNING	221,100	32,102
TOTAL NET POSITION - ENDING	$ 156,981	$ 221,100

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

SULLIVAN COUNTY, BLUFF CITY, KINGSPORT ANIMAL CONTROL CENTER, INC.
Kingsport, Tennessee
STATEMENT OF CASH FLOWS
Year Ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 162,782	$ 174,864
Cash payments to employees for services	(317,422)	(193,574)
Cash payments to suppliers for goods and services	(424,655)	(316,748)
Net cash used for operating activities	(579,295)	(335,458)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating appropriations received	484,557	482,978
Unrestricted gifts received	41,212	38,002
Restricted grants received	(4,436)	5,000
Net cash provided by noncapital financing activities	521,333	525,980
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of vehicles and equipment	(7,203)	-
Net cash used for capital and related financing activities	(7,203)	-
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and dividends on investments	839	768
Net cash provided by investing activities	839	768
NET INCREASE (DECREASE) IN CASH	(64,326)	191,290
CASH AT BEGINNING OF PERIOD	226,068	34,778
CASH AT END OF PERIOD	161,742	226,068
Reconciliation of Operating Income (Loss) to Net Cash used for Operating Activities:		
Operating income (loss)	(615,487)	(394,553)
Adjustments to reconcile operating income (loss) to net cash used for operating activities:		
Depreciation	8,195	8,836
Donated use of facilities	24,000	23,998
Change in assets and liabilities:		
(Increase) in accounts receivable	(1,035)	(1,440)
(Increase) decrease in prepaids	(2,514)	665
Increase in accounts payable	6,477	17,237
Increase in accrued liabilities	1,069	9,799
Net cash used for operating activities	$(579,295)	$(335,458)

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

Note 1. Summary of Significant Accounting Policies

The Sullivan County, Bluff City, Kingsport Animal Control Center, Inc. (SBK Center) is a joint venture formed by an interlocal agreement between Sullivan county and the cities of Bluff City and Kingsport and was organized under the laws of the State of Tennessee on February 3, 2011. The purpose of the SBK Center is to provide animal control, prevent cruelty to animals and for the operation of one or more animal shelters with Sullivan County, Bluff City, and Kingsport. The SBK Center is governed by a nine-member board of directors with members appointed by Sullivan County, Bluff City, Kingsport, the Humane Society, and from the community.

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 SBK 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 SBK Center's principal ongoing operations. The principal operating revenues of the SBK Center are charges to customers for services and adoption fees. All revenues not meeting this definition are reported as nonoperating revenues. Operating expenses of the SBK Center include salaries and associated taxes and benefits as well as costs of feeding and caring for the animals and maintaining the SBK Center's buildings, grounds, and equipment.

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

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 SBK Center considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. The SBK Center maintains separate cash and investment accounts for monies restricted by donors or designated by the board for future building projects.

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, 2013 and 2012, $564 and $5,000 of the SBK Center's cash was restricted by donors for the provision of a low income spay and neuter program.

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

Note 1. Summary of Significant Accounting Policies (Continued)

Basis of Presentation - All assets, liabilities, equities, revenues, expenses, and transfers relating to the SBK Center's businesses are accounted for in a single proprietary fund. The SBK Center's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) using a flow of economic resources measurement focus and the accrual basis of accounting. This is the same measurement focus and basis of accounting used by private business enterprises.

Net Position – Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in capital assets consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflow of resources related to those assets.

Restricted Net Position – Restricted net position is cash and cash equivalents whose use is limited by legal or grant requirements. As of June 30, 2013 and 2012, the SBK Center did have a restricted net position of $564 and $5,000, respectively. If restricted and unrestricted net positions are available for the same purpose, then restricted net position will be used before unrestricted net position.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of net financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position that applies to a future period and so *will* not be recognized as an inflow of resources (revenue) until that time.

For the year ended June 30, 2013 and 2012, the SBK Center had deferred grant income of $1,901 and $2,661, respectively.

Note 2. Lease Commitments

On July 1, 2011, the SBK Center entered into a lease agreement with the City of Kingsport and Sullivan County for land and buildings where the animal control shelters are now located. The terms of the lease are $1 per year with an option to renew annually unless terminated by a thirty day written notice by either party. The in-kind fair market value of the lease and lease expense has been included in the statement of revenues, expenses and changes in net position.

Note 3. Income Taxes

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

Note 4. Compensated Absences

Full-time employees of the SBK Center are entitled to paid personal or sick leave. After the first year of service, all regular full-time employees earn three days of personal or sick leave. After three years of service, the number of personal or sick leave days increase gradually up to a maximum of six days after ten years of service. Temporary employees are not eligible for personal or sick leave.

Note 4. Compensated Absences (Continued)

Full-time employees, after one year of service, are entitled to five days of vacation per year, with an additional day of vacation for each additional year of service, to a maximum of fifteen days. Full-time employees with fifteen years or more of continuous service are granted fifteen days of vacation per year. Full-time employees may carry over into the next year a maximum of forty hours. Part-time employees may carry over a maximum of ten hours.

Full-time employees also receive holiday pay for designated holidays, provided the employee works the scheduled work days before and after the holiday.

Compensated absences for the personal and sick time and vacation days have not been accrued since either most earned days are used during the year or the employees have not met the year of service requirement. The SBK Center's policy is to recognize these costs when paid.

Note 5. Insurance

The SBK Center is subject to a variety of claims ranging from workers' compensation claims, employment claims and a multiplicity of other liability claims. The SBK Center has purchased insurance coverage for general liability, personal injury, automobile and workers' compensation. The SBK Center is not covered by insurance of any other governmental entity.

Note 6. Building and Equipment

Equipment and vehicles 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 SBK Center's current policy is to capitalize only those assets costing $1,000 or more with a life greater than one year. Equipment is depreciated over five to ten 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, 2013 and 2012 amounted to $8,195 and $8,836, respectively.

Fixed assets are comprised of the following:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Cost				
Equipment	$ -	$1,703	$ -	$ 1,703
Vehicles	120,762	5,500	-	126,262
Total Cost	120,762	7,203	-	127,965
Accumulated Depreciation				
Equipment	-	61	-	61
Vehicles	94,132	8,134	-	102,266
Total accumulated depreciation	94,132	8,195	-	102,327
Net equipment and vehicles	$ 26,630	$ (992)	$ -	$ 25,638

Note 7. Economic Dependence

The SBK Center receives the majority of its revenue from Kingsport and Sullivan County, Tennessee and must comply with the requirements of these funding source entities.

Note 8. Deposits

The SBK Center maintains deposit accounts at one credit union in Kingsport, Tennessee. The deposit accounts at the credit union are insured through the NCUA up to $250,000. All of the SBK Center's deposits were fully insured at June 30, 2013 and 2012.

Note 9. Subsequent Events

In connection with the preparation of the financial statements, management has evaluated events subsequent to June 30, 2013 through August 15, 2014, which is the date the financial statements were available to be issued, and concluded that no additional disclosures are required.

SULLIVAN COUNTY, BLUFF CITY, KINGSPORT ANIMAL CONTROL CENTER, INC.
Kingsport, Tennessee
SCHEDULE OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2013 and 2012

	Program Services June 30, 2013	Program Services June 30, 2012
Contract services	$152,996	$144,121
Depreciation	8,195	8,836
Facilities rent	24,000	24,000
Insurance	39,912	24,047
Medicine, drugs and vaccinations	17,629	19,008
Occupancy expense	44,000	29,347
Office expense	16,287	7,765
Payroll taxes	27,532	18,467
Repairs and maintenance	15,209	12,806
Salaries and wages	294,487	184,906
Supplies	32,768	18,168
Telephone and answering services	11,287	11,071
Vehicle and travel	26,248	21,926
Veterinary services	60,002	42,526
Other operating expenses	8,817	3,798
Total expenses	$779,369	$570,792

DENT K. BURK ASSOCIATES, P.C.
Certified Public Accountants

BRISTOL, VIRGINIA
KINGSPORT, TENNESSEE
JOHNSON CITY, TENNESSEE
GRUNDY, VIRGINIA

INDEPENDENT AUDITOR'S 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
Sullivan County, Bluff City, Kingsport Animal Control Center, Inc.
Kingsport, Tennessee

We have audited, in accordance with the 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, the financial statements of Sullivan County, Bluff City, Kingsport Animal Control Center, Inc. (a Tennessee nonprofit organization), which comprise the statement of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated August 15, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sullivan County, Bluff City, Kingsport Animal Control Center, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sullivan County, Bluff City, Kingsport Animal Control Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Sullivan County, Bluff City, Kingsport Animal Control Center, Inc.'s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: 2013-01, 2013-02, 2013-03, and 2013-04.

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 deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies. 2013-05 and 2013-06.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sullivan County, Bluff City, Kingsport Animal Control Center, Inc.'s financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards,* and which are described in the accompanying schedule of findings and responses as items 2013-07.

We noted certain matters that we reported to management of Sullivan County, Bluff City, Kingsport Animal Control Center, Inc. in a separate letter dated August 15, 2014.

Sullivan County, Bluff City, Kingsport, Animal Control Center, Inc.'s Response to Findings

Sullivan County, Bluff City, Kingsport, Animal Control Center, Inc.'s response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. Sullivan County, Bluff City, Kingsport, Animal Control Center, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purposes of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dent K. Burk Associates P.C.
Certified Public Accountants

Kingsport, Tennessee
August 15, 2014

SULLIVAN COUNTY, BLUFF CITY, KINGSPORT ANIMAL CONTROL CENTER
Kingsport, Tennessee
SCHEDULE OF FINDINGS AND RESPONSES
For the Years Ended June 30, 2013 and 2012

FINDINGS – FINANCIAL STATEMENTS AUDIT

MATERIAL WEAKNESS IN INTERNAL CONTROL

FINDING 2013:01: ACCOUNTING SYSTEM

Condition: The Organization did not begin using an accounting software system to record transactions until midway through the June 30, 2013 fiscal year. Each location maintained a separate system from the other though they shared the same Checking and Savings accounts. Transactions occurring prior to the establishment of the accounting system were entered retrospectively per each location's respective activities. Also, transactions for June 30, 2012 were entered into a separate copy of the software than the June 30, 2013 transactions creating an incomplete set of accounting records.

Criteria: National Council on Government Accounting (NCGA) Statement 1, as amended by GASB 34 *Accounting and Reporting Capabilities*: A governmental accounting system must make it possible both (a) to present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the governmental unit in conformity with generally accepted accounting principles; and (b) to determine and demonstrate compliance with finance related legal and contractual provisions.

Cause: Inadequate oversight by the board of directors and management and lack of knowledge of government accounting standards, accounting principles and use of the accounting software.

Effect: The copy of the accounting software currently being used does not reflect all transactions for both fiscal years. Many adjusting entries were necessary to correct the financial records and to prepare the financial statements.

Recommendation: The transactions for both fiscal years should be consolidated into one version of the software and the missing or erroneous transactions corrected, so that a complete historical record of the organization's financial transactions exist.

Response: Management agrees that both fiscal years should be consolidated into one version of software and we have hired a financial consultant to consolidate the systems and correct the transactions.

FINDING 2013-02: UNIFORM CHART OF ACCOUNTS

Condition: The Organization has a different chart of accounts set-up per each location's accounting software system.

Criteria: National Council on Government Accounting (NCGA) Statement 1, as amended by GASB 34 *Accounting and Reporting Capabilities*: A governmental accounting system must make it possible both (a) to present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the governmental unit in conformity with generally accepted accounting principles; and (b) to determine and demonstrate compliance with finance related legal and contractual provisions.

Cause: A uniform chart of accounts has not been established by the Organization that identifies the account to which each type of transaction should be coded.

Effect: Transactions are not recorded in the correct accounts resulting in misleading financial records that are not easily merged into a combined financial report for both locations and the various types of revenues and expenses are not adequately identified for tax, financial, and regulatory reporting purposes.

Recommendation: Management should develop a uniform chart of accounts to be used at each location so that transactions are recorded in a similar fashion and provides the detail necessary for tax, financial, and regulatory reporting purposes.

Response: The financial consultant has reviewed the chart of accounts and developed a uniform chart of accounts that provides the detail necessary for tax, financial, and regulatory reporting purposes.

FINDING 2013-03: FINANCIAL REPORTING

Condition: The financial records contained numerous errors and misstatements. There were numerous checks written that were not entered into the accounting software. There were instances where invoices were paid twice or at an amount different from the invoiced amount. The adjustments for deferred inflows and outflows and accruals for accounts payable and other liabilities were not made at the end of the accounting period. Payroll expense was recorded net of the employee and employer withholdings and payroll taxes and were not properly allocated to each location's accounting files. The checking and savings accounts were not reconciled by the employees responsible for maintaining the books and records.

Criteria: National Council on Government Accounting (NCGA) Statement 1, as amended by GASB 34 *Accounting and Reporting Capabilities*: A governmental accounting system must make it possible both (a) to present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the governmental unit in conformity with generally accepted accounting principles; and (b) to determine and demonstrate compliance with finance related legal and contractual provisions.

Cause: Inadequate oversight by the board of directors and management and lack of knowledge of government accounting standards, bookkeeping, software, and accounting principles and the failure to adequately cancel and code invoices with date, check number, amount paid, and account code when paid. The payroll function is outsourced to an independent payroll company which withholds and remits all required payroll taxes and issues the checks to the employees with the net amount being entered into the accounting software as all wage expense. The use of two separate accounting files for the two locations prevented the reconciliation of the cash accounts through the accounting software and contributed to the omission of all the transactions into the accounting software due to confusion over which file the transaction should be recorded.

Effect: The financial statements were materially misstated requiring numerous adjusting journal entries to correctly report the transactions.

Recommendation: We recommend that a centralized system of accounting be established, so that all transactions affecting the organization be included in one accounting software file. Management should oversee the employees responsible for maintaining the books and records to ensure that invoices are properly paid and cancelled and that the end of period adjustments are made properly. Payroll wages and employer paid taxes and benefits should be recorded separately at the gross amounts and not netted together. The cash accounts should be reconciled at each month end.

Response: Management has made changes to centralize the accounting system and has hired a financial consultant to consolidate everything into one accounting software file. The consultant is also training the employees on the software system.

FINDING 2013-04: IN-KIND DONATIONS

Condition: In-kind donations of goods and use of the leased facilities for both locations and the corresponding expense are not being recorded in the accounting system.

Criteria: National Council on Government Accounting (NCGA) Statement 1, as amended by GASB 34 *Accounting and Reporting Capabilities*: A governmental accounting system must make it possible both (a) to present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the governmental unit in conformity with generally accepted accounting principles; and (b) to determine and demonstrate compliance with finance related legal and contractual provisions.

Cause: Inadequate oversight by the board of directors and management and lack of knowledge of government accounting standards and accounting principles.

Effect: The financial statements were materially misstated and required adjustments to properly record the in-kind donations.

Recommendation: The in-kind donations of goods and services and use of leased facilities should be recorded in the books and records at the amounts that would be required to pay if purchased.

Response: The financial advisor is training the employees on how to record in-kind donations properly.

SIGNIFICANT DEFICIENCES IN INTERNAL CONTROL

FINDING 2013-05: PETTY CASH AND USE OF CREDIT CARDS

Condition: Petty cash transactions are not being properly recorded in the accounting system and controls over the safe guarding and use of petty cash are inadequate and inconsistent between the two locations. Petty cash is not being replenished on a regular basis, requiring employees to use personal credit cards for incidental shelter expenses. Reimbursements for purchases made by employees using personal credit cards were included in the petty cash disbursements and the petty cash purchases were not charged to the appropriate expense accounts.

Criteria: National Council on Government Accounting (NCGA) Statement 1, as amended by GASB 34 *Accounting and Reporting Capabilities*: A governmental accounting system must make it possible both (a) to present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the governmental unit in conformity with generally accepted accounting principles; and (b) to determine and demonstrate compliance with finance related legal and contractual provisions.

Cause: Inadequate oversight by the board of directors and management. Standard operating procedures for the handling of petty cash and credit card purchases have not been established by the Organization that clearly define the replenishment of the petty cash and the accounting for the petty cash transactions and credit card purchases.

Effect: The petty cash transactions have been entered into the accounting system incorrectly and inconsistently on the accounting software for each location resulting in misstated financial records. The lack of controls over petty cash increase the possibility of abuse or theft of cash and unauthorized purchases.

Recommendation: Management should establish written guidelines over the handling of petty cash funds and should provide a company credit card for purchases that are not eligible to be paid by check for shelter expenses rather than allowing the employees to use personal credit cards for shelter expenses.

Response: Written guidelines have been established for petty cash. We are looking at alternatives for the shelter to purchase items that are not eligible to be paid by check.

FINDING 2013-06: DEPOSITS

Condition: Deposits are not being made on a daily basis and procedures for handling deposits are not consistent between the two locations and there is a lack of segregation of duties in regards to cash deposits. At one location, deposit slips were not being used and the daily deposit records were discarded. During testing of the daily deposit records at the other location, instances were found where the deposit was not entered into the accounting software, or the amount entered did not agree with the daily deposit sheets.

Criteria: National Council on Government Accounting (NCGA) Statement 1, as amended by GASB 34 *Accounting and Reporting Capabilities*: A governmental accounting system must make it possible both (a) to present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the governmental unit in conformity with generally accepted accounting principles; and (b) to determine and demonstrate compliance with finance related legal and contractual provisions

Cause: Inadequate oversight by the board of directors and management and the failure to establish standard operating procedures to safeguard the deposits and to record the deposits into the accounting software.

Effect: Misstatement of the daily operating fees and donations and the possible theft of deposits.

Recommendation: Deposits should be made daily with controls established to segregate the duties of receiving cash payments, recording the transactions in the accounting system and the deposit of the cash receipts into the bank accounts.

Response: Controls have been put into place to segregate the duties of receiving cash payments, recording the transactions in the accounting system and the deposit of the cash receipts into the bank accounts. These controls were set up in June 2013. The shelters have been instructed to make bank deposits daily.

COMPLIANCE FINDINGS

FINDING 2013-07: REGISTRATION WITH STATE OF TENNESSEE AS CHARITABLE ORGANIZATION

Condition: The organization has not registered with the state of Tennessee as a charitable organization.

Criteria: Tennessee Charitable Solicitations Act and Rules and Regulations require charitable organizations, unless exempt, to register with the state of Tennessee if contributions exceed $30,000.

Effect: The organization is in violation of Tennessee statutes and is subject to late application and filing fees and the possibility of civil penalties.

Recommendation: The organization should immediately register with the state of Tennessee as a charitable organization.

Response: We will register with the State of Tennessee as a charitable organization immediately.