

WASHINGTON COUNTY-JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.

Johnson City, Tennessee

FINANCIAL STATEMENTS

June 30, 2013

WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.

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December 3, 2013

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, 2013, 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 unmodified opinion that the Center's financial statements for the fiscal year ended June 30, 2013, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

## Profile of the Center

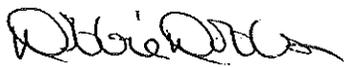
The Center, chartered as a non-profit in 1985, is designed to provide a community wide resource. The Center provides adoption and low cost spay/neuter programs and pick-up for stray and unwanted animals. In addition the Center also serves the community by investigating suspected animal cruelty, removing dead animals from roadways and private property, and educating the general public about animal care. During the fiscal year ended June 30, 2013, the shelter took in 6,636 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

Rick Gordon	President, City Representative through July 2012
Pete Peterson	President, City Representative beginning August 2012
Ralph Van Brocklin	City Representative
Pat Wolfe	County Representative
David Tomita	County Representative
Beverly Hyder	Vice President, Washington County Humane Society Representative through December 2012
Lisa Witherspoon	Vice President, Washington County Humane Society Representative beginning January 2013



**Eddy & Eddy**

CERTIFIED PUBLIC ACCOUNTANTS

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TENNESSEE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying statement of net position of Washington County – Johnson City 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 year ended June 30, 2013, and the related notes to the 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 audit opinion.

### *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, 2013, and the changes in financial position and cash flows thereof for the year 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 and the schedule of funding progress – employee retirement system information on pages 7 through 11 and page 24 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*

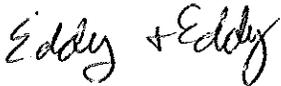
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Washington County – Johnson City Animal Control Center, Inc.'s financial statements. The introductory section and the supplemental section are presented for purposes of additional analysis and are not a required part of the financial statements.

The introductory section and the supplemental section are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 25 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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2013, 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* in considering Washington County – Johnson City Animal Control Center, Inc.’s internal control over financial reporting and compliance.



Eddy & Eddy, CPAs, P.C.  
Johnson City, Tennessee  
December 3, 2013

## 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, 2013. 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 position decreased by \$4,163 during the fiscal year. Unrestricted net position decreased \$8,005.
- During the year, the Center's expenses were \$4,163 more than the \$551,434 generated in revenues. This is \$472,687 less than last year, when revenues exceeded expenses by \$468,524.

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

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

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

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

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

	<b>Fund Statements</b>
	<b>Proprietary Funds</b>
Scope	Activities the Center operates similar to private businesses
Required financial statements	Statement of net position Statement of revenues, expenses, and changes in net position 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 position.** The Center's combined net position decreased \$4,163 between fiscal years 2012 and 2013 with an ending balance of \$756,288. (See Table A-1.) In comparison, last year net position increased \$468,524, including \$450,000 City and County building fund contributions.

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

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

	<u>2012</u>	<u>2013</u>	<u>Total Percentage Change</u>
Current and other assets	\$ 51,645	\$ 53,446	3.5%
Noncurrent assets	<u>733,902</u>	<u>737,744</u>	0.5%
<b>Total assets</b>	<u><b>785,547</b></u>	<u><b>791,190</b></u>	0.7%
Long-term debt outstanding	-	-	
Other liabilities	<u>25,096</u>	<u>34,902</u>	39.1%
<b>Total liabilities</b>	<u><b>25,096</b></u>	<u><b>34,902</b></u>	39.1%
Net position			
Invested in capital assets	604,747	593,896	-1.8%
Restricted	129,155	143,848	11.4%
Unrestricted	<u>26,549</u>	<u>18,544</u>	-30.2%
<b>Total net position</b>	<u><b>\$ 760,451</b></u>	<u><b>\$ 756,288</b></u>	-0.5%

Net position of the Center decreased approximately 0.5 percent to \$756,288. However, some components of net position 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 position showed an \$8,005 decrease at the end of this year, and net position invested in capital assets decreased \$10,851.

**Changes in net position.** The Center's total revenues decreased by about 44.8 percent to \$551,434. (See Table A-2.) Approximately 60 percent of the Center's revenue comes from city and county appropriations. Approximately 16 percent comes from fees charged for services. Most of the rest is from donations.

The total cost of all programs and services increased approximately \$25,500, or about 4.8 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>2012</u>	<u>2013</u>	<u>Total Percentage Change</u>
<b>Revenues</b>			
Charges for Sales and Services	\$ 91,314	\$ 86,617	-5.1%
Appropriations	316,000	333,000	5.4%
City and County Building Fund Contributions	450,000	-	-100.0%
Donated Goods and Services	-	500	
Public Donations	138,798	131,002	-5.6%
Investment Income	1,923	791	-58.9%
Unrealized Gain (Loss) on Investments	535	(476)	-189.0%
<b>Total revenues</b>	<u>998,570</u>	<u>551,434</u>	-44.8%
<b>Expenses</b>			
Professional Services	21,700	45,430	109.4%
Maintenance - Structures and Equipment	6,237	10,130	62.4%
Depreciation	13,473	10,851	-19.5%
Employee Benefits	58,638	53,472	-8.8%
Insurance	8,018	8,553	6.7%
Office Expenses	10,845	14,368	32.5%
Supplies	44,029	46,155	4.8%
Other Operating Expenses	14,805	13,386	-9.6%
Payroll Taxes	23,130	22,607	-2.3%
Salaries	277,204	277,577	0.1%
Utilities	18,263	20,277	11.0%
Vehicle and Travel	33,704	32,791	-2.7%
<b>Total expenses</b>	<u>530,046</u>	<u>555,597</u>	4.8%
<b>Increase (Decrease) in Net Position</b>	<u>\$ 468,524</u>	<u>\$ (4,163)</u>	100.9%

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

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

As of June 30, 2013, the Center had invested \$921,852 in capital assets including equipment and building. This amount represents no change from last year. In August and September 2012, the Center entered into contracts with an architect and another firm to conduct feasibility study and fundraising services, both in connection with the future construction of a new 15,000 square foot animal shelter facility on land at North Roan Street, Johnson City, Tennessee. In June 2013, the City of Johnson City included in its debt service budget up to \$1.5 million for the Animal Shelter. At the November 5, 2013 board meeting, the Center approved a project management agreement between Burleson Construction Co., Inc. and the City of Johnson City / Washington County Animal Control Board. The expected construction period for the new shelter is January through December 2014.

**Long-term Debt**

At the end of fiscal year 2013, 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 Position  
June 30, 2013**

**ASSETS**

Current Assets:	
Cash and Cash Equivalents	\$ 20,616
Investments	22,179
Accounts Receivable, net	3,703
Prepaid Items	<u>6,948</u>
Total Current Assets	<u>53,446</u>
Noncurrent Assets:	
Donor Restricted Cash	129,938
Donor Restricted Investments	<u>13,910</u>
Total Donor Restricted Funds	<u>143,848</u>
Capital Assets:	
Land	502,210
Buildings and Equipment	419,642
Less Accumulated Depreciation	<u>(327,956)</u>
Net Capital Assets	<u>593,896</u>
Total Noncurrent Assets	<u>737,744</u>
Total Assets	<u>791,190</u>

**LIABILITIES**

Current Liabilities:	
Accounts Payable	10,055
Spay/Neuter Fees Payable	3,575
Accrued Liabilities	<u>21,272</u>
Total Liabilities	<u>34,902</u>

**NET POSITION**

Invested in Capital Assets	593,896
Restricted for:	
Capital Projects	143,848
Unrestricted	<u>18,544</u>
Total Net Position	<u>\$ 756,288</u>

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

**WASHINGTON COUNTY - JOHNSON CITY ANIMAL  
CONTROL CENTER, INC.  
Statement of Revenues,  
Expenses and Changes in Net Position  
For the Year Ended June 30, 2013**

**OPERATING REVENUES**

Charges for Sales and Services	\$	86,617
Total Operating Revenues		86,617

**EXPENSES**

Accounting and Auditing		6,400
Other Professional Services		39,030
Maintenance - Structures and Equipment		10,130
Depreciation Expense		10,851
Employee Benefits		53,472
Insurance		8,553
Office Expense		14,368
Supplies		46,155
Other Operating Expenses		13,386
Payroll Taxes		22,607
Salaries		277,577
Utilities		20,277
Vehicle and Travel		32,791
Total Expenses		555,597
Operating Income (Loss)		(468,980)

**NONOPERATING REVENUE**

City Appropriation		175,000
County Appropriation		158,000
Public Donations		131,002
Investment Income		791
Net Increase (Decrease) in the Fair Value of Investments		(476)
Donated Goods and Services		500
Total Nonoperating Revenues		464,817
Change in Unrestricted Net Position		(18,856)
Change in Restricted Net Position		14,693
Net Position - Beginning of the Year		760,451
Net Position - End of the Year		\$ 756,288

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

**WASHINGTON COUNTY - JOHNSON CITY ANIMAL  
CONTROL CENTER, INC.  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2013**

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from customers	\$ 86,382
Cash payments to employees for services	(269,915)
Cash payments to suppliers for goods and services	<u>(265,380)</u>
Net cash used for operating activities	<u>(448,913)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Operating appropriations received	333,000
Unrestricted gifts received	<u>88,771</u>
Net cash provided by noncapital financing activities	<u>421,771</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Gifts restricted for capital purposes	<u>42,231</u>
Net cash provided by capital and related financing activities	<u>42,231</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest and dividends on investments	<u>793</u>
Net cash provided by investing activities	<u>793</u>
Net increase in cash and cash equivalents	15,882
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>134,672</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 150,554</u>

**Reconciliation of Operating Income (Loss) to Net Cash Used for Operating Activities:**

Operating Income (Loss)	\$ (468,980)
Adjustments to reconcile operating income (loss) to net cash used for operating activities:	
Depreciation	10,851
Donated Goods and Services	500
Change in assets and liabilities:	
Increase in Accounts Receivable	(235)
Increase in Prepaids	(855)
Increase in Accounts Payable	6,084
Decrease in Spay/Neuter Deposits Payable	(3,940)
Increase in Accrued Liabilities	<u>7,662</u>
Net cash used for operating activities	<u>\$ (448,913)</u>

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

WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013

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.

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 separate cash and investment accounts for monies restricted by donors or designated by the board for future building projects.

WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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, \$129,938 of the Center’s cash was restricted by donors for the Building Fund. There were \$42,231 private donations to the Building Fund during the year ended June 30, 2013.

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) 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.

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).

WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013

NOTE 4. ADVERTISING

The Organization expenses advertising costs as incurred. Total advertising expense for the year ended June 30, 2013 was \$443.

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 termination of an employee, no payment for sick leave will be made. Subsequent to June 30, 2013, no employees exercised the cash option; therefore, no accrued sick leave is included in accrued expenses as of June 30, 2013.

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 hours worked. Vacation time is encouraged to be used by the end of each calendar year. Full-time employees may carry over into the next year a maximum of 40 hours. Part-time employees may carry over a maximum of ten hours.

Upon termination, an employee with at least twelve consecutive months of service may be entitled to payment for accrued vacation time, provided the requested two-week written notice of resignation is given. Accrued vacation of \$6,797 is included in accrued liabilities as of June 30, 2013.

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, 2013

NOTE 7. RETIREMENT PLAN

Plan Description – Employees of Washington County - Johnson City Animal Control Center, Inc. are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with ten years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after ten years of service and members joining prior to July 1, 1979 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, 10<sup>th</sup> 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, 2013 was 12.01% 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, 2013

NOTE 7. RETIREMENT PLAN (Continued)

Annual Pension Cost – For the year ending June 30, 2013, Washington County - Johnson City Animal Control Center, Inc's annual pension cost of \$20,584 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, 2011 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), (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, 2011 was 1 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

**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, 2013	\$20,584	100.00%	\$0
June 30, 2012	\$19,525	100.00%	\$0
June 30, 2011	\$20,174	100.00%	\$0

Funded Status and Funding Progress – As of July 1, 2011, the most recent actuarial valuation date, the plan was 98.54 percent funded. The actuarial accrued liability for benefits was \$0.48 million, and the actuarial value of assets was \$0.47 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.01 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.18 million, and the ratio of the UAAL to the covered payroll was 3.88 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, 2013

NOTE 7. RETIREMENT PLAN (Continued)

Funded Status and Funding Progress (Continued)

(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, 2011	\$ 470	\$ 476	\$ 7	98.54%	\$ 179	3.88%

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, 2013 amounted to \$10,851.

WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013

NOTE 8. BUILDING AND EQUIPMENT (Continued)

Fixed assets are comprised of the following:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2013</u>
<b>Cost</b>				
Land	\$ 502,210	\$ -	\$ -	\$ 502,210
Equipment	50,949	-	-	50,949
Building and Improvements	260,570	-	-	260,570
Vehicles	<u>108,123</u>	<u>-</u>	<u>-</u>	<u>108,123</u>
Total Cost	<u>921,852</u>	<u>-</u>	<u>-</u>	<u>921,852</u>
<b>Accumulated Depreciation</b>				
Equipment	48,918	728	-	49,646
Building and Improvements	166,547	8,125	-	174,672
Vehicles	<u>101,640</u>	<u>1,998</u>	<u>-</u>	<u>103,638</u>
Total Accumulated Depreciation	<u>317,105</u>	<u>10,851</u>	<u>-</u>	<u>327,956</u>
Net Buildings and Equipment	<u>\$ 604,747</u>	<u>\$ (10,851)</u>	<u>\$ -</u>	<u>\$ 593,896</u>

NOTE 9. DEPOSITS AND INVESTMENTS

Deposits and investments are summarized as follows:

	<u>June 30, 2013</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>
<b>Unrestricted:</b>			
Deposits at Financial Institutions	\$ 20,616	\$ 20,616	\$ 20,616
Certificates of Deposit with Maturity			
Dates Greater Than 3 Months	<u>22,179</u>	<u>22,179</u>	<u>22,179</u>
Total Unrestricted	<u>42,795</u>	<u>42,795</u>	<u>42,795</u>
<b>Restricted:</b>			
Deposits at Financial Institutions	127,036	127,036	127,036
Broker Cash and Institutional Funds	<u>2,902</u>	<u>2,902</u>	<u>2,902</u>
Total Cash and Equivalents	129,938	129,938	129,938
Certificates of Deposit with Maturity			
Dates Greater Than 3 Months	<u>13,910</u>	<u>13,910</u>	<u>13,910</u>
Total Restricted	<u>143,848</u>	<u>143,848</u>	<u>143,848</u>
Total	<u>\$ 186,643</u>	<u>\$ 186,643</u>	<u>\$ 186,643</u>

WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013

NOTE 9. DEPOSITS AND INVESTMENTS (Continued)

Investment income for the year ended June 30, 2013, which is classified as nonoperating income in the statement of revenues, expenses and changes in net position, consisted of \$793 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, 2013.

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, 2013.

WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2013

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, 2013.

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, 2013.

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, 2013.

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 \$965 for the Center for the fiscal year ended June 30, 2013.

NOTE 12. CONDITIONAL PROMISES TO GIVE

On May 1, 2012, a donor made a \$50,000 commitment to the Center's building fund, conditioned upon breaking ground for the new shelter.

NOTE 13. SUBSEQUENT EVENTS

On November 5, 2013 the Center approved an agreement between Burleson Construction Co., Inc. and the City of Johnson City / Washington County Animal Control Board for Burleson to provide project management services for the new shelter with expected construction January through December 2014. The fee was set at one percent of total construction project.

In connection with the preparation of the financial statements, management has evaluated events subsequent to June 30, 2013 through December 3, 2013, which is the date the financial statements were available to be issued, and concluded that no additional disclosures are required.

**WASHINGTON COUNTY - JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
Schedule of Funding Progress - Employee Retirement System  
For the Year Ended June 30, 2013**

(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, 2011	\$ 470	\$ 476	\$ 7	98.54%	\$ 179	3.88%
July 1, 2009	\$ 359	\$ 368	\$ 9	97.53%	\$ 162	5.61%
July 1, 2007	\$ 309	\$ 320	\$ 11	96.56%	\$ 136	8.09%

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

**WASHINGTON COUNTY - JOHNSON CITY ANIMAL  
CONTROL CENTER, INC.  
Schedule of Functional Expenses  
For the Year Ended June 30, 2013**

	<u>Program Services</u>	<u>Supporting Services Management and General</u>	<u>Total</u>
Accounting and Auditing	\$ -	\$ 6,400	\$ 6,400
Other Professional Services	-	39,030	39,030
Maintenance - Structures and Equipment	8,307	1,823	10,130
Depreciation Expense	10,091	760	10,851
Employee Benefits	45,505	7,967	53,472
Insurance	7,013	1,540	8,553
Office Expense	-	14,368	14,368
Supplies	41,724	4,431	46,155
Other Operating Expenses	13,386	-	13,386
Payroll Taxes	19,239	3,368	22,607
Salaries	236,218	41,359	277,577
Utilities	16,627	3,650	20,277
Vehicle and Travel	32,791	-	32,791
	<u>          </u>	<u>          </u>	<u>          </u>
Total Expenses	<u>\$ 430,901</u>	<u>\$ 124,696</u>	<u>\$ 555,597</u>

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



**Eddy & Eddy**

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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 of  
Washington County – Johnson City Animal Control Center, Inc.  
Johnson City, 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 Washington County – Johnson City Animal Control Center, Inc. (a Tennessee nonprofit organization), which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 3, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Washington County – Johnson City 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 Washington County – Johnson City Animal Control Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Washington County – Johnson City Animal Control Center, Inc.'s internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

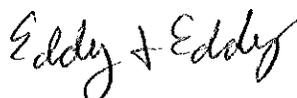
### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Washington County – Johnson City Animal Control Center, Inc.’s financial statements are free 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Washington County – Johnson City Animal Control Center, Inc. in a separate letter dated December 3, 2013.

### **Purpose 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.



Eddy & Eddy, CPAs, P.C.  
Johnson City, Tennessee  
December 3, 2013