

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

Kingsport, Tennessee

FINANCIAL STATEMENTS

June 30, 2014

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

MANAGEMENT

Becky Birdwell	Program Director
Donna Davidson	Manager

BOARD OF DIRECTORS

Tom Parham	President, City of Kingsport Representative
John Campbell	City of Kingsport Representative
Susan Krein	Treasurer, City of Kingsport Representative
Steve Godsey	Sullivan County Representative
Bob Neal	Sullivan County Representative
Matthew Johnson	Vice President, Sullivan County Representative
Melvin Carrier	Bluff City Representative
Carla Sentell	Secretary, Humane Society Representative
Russell Adkins	At-Large Director

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 year ended June 30, 2014, 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 audit opinion.

Opinion

In our opinion, 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, 2014, 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 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 introductory section and 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.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 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.

Dont K. Burk Associates, P.C.
Certified Public Accountants

SULLIVAN COUNTY, BLUFF CITY, KINGSPORT ANIMAL CONTROL CENTER, INC.
 Kingsport, Tennessee
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Year Ended June 30, 2014

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, 2014. 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 \$187,505 during the fiscal year. Unrestricted net position decreased \$179,228.
- During the year, the expenses were \$187,505 more than the \$712,468 generated in revenues. This is \$123,386 more than last year, when expenses exceeded revenue by \$64,119.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The basic financial statements of the SBK Center are proprietary fund statements. Proprietary fund statements offer short-term 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 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	Statement 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

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

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-term and short-term financial information.

FINANCIAL ANALYSIS OF THE SBK CENTER AS A WHOLE

Net position. The SBK Center's combined net position decreased \$187,505 between fiscal years 2013 and 2014 with a negative balance of \$30,524 (see Table A-1). In comparison, last year's net position decreased \$64,119 between fiscal years 2012 and 2013. The difference between the two years is primarily due to increased salaries, benefits, payroll taxes, and professional expenses incurred in the 2014 fiscal year.

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

	2014	2013	Total Percentage Change
Current and other assets	\$ 34,808	\$168,390	-79.3%
Noncurrent assets	<u>17,361</u>	<u>25,638</u>	-32.3%
Total assets	<u>\$ 52,169</u>	<u>\$194,028</u>	-73.1%
Long-term debt outstanding	\$ -	\$ -	-%
Other liabilities	<u>82,693</u>	<u>37,047</u>	123.2%
Total liabilities	<u>\$ 82,693</u>	<u>\$ 37,047</u>	123.2%
Net position			
Invested in capital assets	\$ 17,361	25,638	-32.3%
Restricted	564	564	-%
Unrestricted	<u>(48,449)</u>	<u>130,779</u>	-137.1%
Total net position	<u>\$ (30,524)</u>	<u>\$156,981</u>	-119.5%

Net position of the SBK Center decreased approximately 120% to a negative \$30,524. 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 \$179,228 decrease at the end of this year, and net position invested in capital assets decreased \$8,277.

Changes in net position. The SBK Center's total revenues decreased by about 0.4% to \$713,443 (see Table A-2). Approximately 71% of the SBK Center's revenue comes from city and county appropriations. Approximately 19% comes from fees charged for services. Most of the rest is from donations.

The total cost of all programs and services increased approximately \$121,579 or 16%. 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

<u>Revenues</u>	<u>2014</u>	<u>2013</u>	<u>Total Percentage Change</u>
Investment income	\$ 457	\$ 839	-45.5%
In-kind use of facilities	23,998	24,000	-%
City and county appropriations	485,317	485,317	-%
Public donations and grants	65,544	41,212	59.0%
Charges for services	<u>138,127</u>	<u>163,882</u>	-15.7%
Total revenue	<u>\$ 713,443</u>	<u>\$715,250</u>	-0.3%
 <u>Expenses</u>			
Contract services	\$ 147,105	\$153,048	-3.9%
Depreciation	8,277	8,195	1.0%
Facilities rent	24,866	24,000	3.6%
Insurance	19,589	19,660	-0.4%
Medicine, drugs, vaccinations	19,222	17,629	9.0%
Occupancy expenses	45,386	62,619	-27.5%
Office expense	12,354	12,823	-3.7%
Payroll taxes and service fees	37,216	27,532	35.2%
Professional services	33,100	-	N/A
Salaries and benefits	402,087	318,925	26.1%
Shelter supplies	32,703	35,063	-6.7%
Telephone and answering service	11,812	11,287	4.7%
Vehicle and travel	32,767	26,248	24.8%
Veterinarian services	70,481	60,002	17.5%
Other operating services	<u>3,983</u>	<u>2,338</u>	70.4%
Total expenses	<u>\$ 900,948</u>	<u>\$779,369</u>	15.6%
 Decrease in net position	 <u>\$(187,505)</u>	 <u>\$ (64,119)</u>	

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2014, the SBK Center had \$17,361 in capital assets.

Long-Term Debt

At the end of fiscal year 2014, 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, 2014

	2014
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 20,909
Accounts receivable, net	8,867
Prepaid expenses	4,168
Deposits	<u>300</u>
Total current assets	<u>34,244</u>
RESTRICTED ASSETS:	
Restricted cash and cash equivalents	<u>564</u>
Total donor restricted funds	<u>564</u>
NON-CURRENT ASSETS:	
Capital Assets:	
Equipment	1,703
Vehicles	<u>126,262</u>
	127,965
Less: Accumulated depreciation	<u>(110,604)</u>
Total capital assets	<u>17,361</u>
Total noncurrent assets	<u>17,361</u>
Total assets	<u>52,169</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>
LIABILITIES	
CURRENT LIABILITIES:	
Cash overdraft	23,472
Accounts payable	46,460
Accrued liabilities	3,761
Loans payable	<u>9,000</u>
Total liabilities	<u>82,693</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>
NET POSITION:	
Investment in capital assets	17,361
Restricted for:	
Low income spay/neuter fees	564
Unrestricted	<u>(48,449)</u>
Total net position	\$ <u>(30,524)</u>

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, 2014

	2014
OPERATING REVENUES:	
Charges for services	\$ <u>138,127</u>
Total operating revenues	<u>138,127</u>
OPERATING EXPENSES:	
Contract services	147,105
Depreciation	8,277
Facilities rent	24,866
Insurance	19,589
Medicine, drugs, and vaccinations	19,222
Occupancy expenses	45,386
Office expense	12,354
Payroll taxes and service fees	37,216
Professional services	33,100
Salaries and benefits	402,087
Shelter supplies	32,703
Telephone and answering service	11,812
Vehicle and travel	32,767
Veterinarian services	70,481
Other operating expenses	<u>3,983</u>
Total expenses	<u>900,948</u>
Operating loss	<u>(762,821)</u>
NONOPERATING REVENUE:	
City appropriation	170,800
County appropriation	314,517
In-kind use of facilities	23,998
Public donations & grants	65,544
Investment income	<u>457</u>
Total nonoperating revenues	<u>575,316</u>
DECREASE IN NET POSITION	(187,505)
TOTAL NET POSITION - BEGINNING	<u>156,981</u>
TOTAL NET POSITION - ENDING	\$ <u>(30,524)</u>

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, 2014

	2014
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 131,736
Cash payments to employees for services	(413,042)
Cash payments to suppliers for goods and services	<u>(440,851)</u>
Net cash used for operating activities	<u>(722,157)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Operating appropriations received	483,416
Unrestricted gifts received	65,543
Proceeds from short term loans	9,000
Changes in cash overdraft	<u>23,472</u>
Net cash provided by noncapital financing activities	<u>581,431</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest and dividends on investments	<u>457</u>
Net cash provided by investing activities	<u>457</u>
NET DECREASE IN CASH	(140,269)
CASH AT BEGINNING OF PERIOD	<u>161,742</u>
CASH AT END OF PERIOD	<u><u>21,473</u></u>
Reconciliation of Operating Loss to Net Cash used for Operating Activities:	
Operating loss	(762,821)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	8,277
Donated use of facilities	23,998
Change in assets and liabilities:	
(Increase) in accounts receivable	(6,392)
(Increase) decrease in prepaids	5
(Increase) in deposits	(300)
Increase in accounts payable	22,747
Increase in accrued liabilities	<u>(7,671)</u>
Net cash used for operating activities	<u><u>\$ (722,157)</u></u>

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

SULLIVAN COUNTY, BLUFF CITY, KINGSPORT ANIMAL CONTROL CENTER, INC.
Kingsport, Tennessee
NOTES TO 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 non-operating 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 non-operating 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, 2014, \$564 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
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SULLIVAN COUNTY, BLUFF CITY, KINGSPORT ANIMAL CONTROL CENTER, INC.
Kingsport, Tennessee
NOTES TO FINANCIAL STATEMENTS

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, 2014, the SBK Center did have a restricted net position of \$564. 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, 2014, the SBK Center had no deferred inflows or outflows of resources.

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) and, accordingly, no provision for income taxes has been included in the accompanying financial statements.

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 and part-time employees are not eligible for personal or sick leave. Unused personal or sick leave days cannot be carried over to the next year.

SULLIVAN COUNTY, BLUFF CITY, KINGSPORT ANIMAL CONTROL CENTER, INC.
Kingsport, Tennessee
NOTES TO FINANCIAL STATEMENTS

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.

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 \$5,000 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, 2014 amounted to \$8,277.

Fixed assets are comprised of the following:

	<u>Balance July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2014</u>
Cost				
Equipment	\$ 1,703	\$ -	\$ -	\$ 1,703
Vehicles	<u>126,262</u>	<u>-</u>	<u>-</u>	<u>126,262</u>
Total Cost	<u>127,965</u>	<u>-</u>	<u>-</u>	<u>127,965</u>
Accumulated Depreciation				
Equipment	61	243	-	304
Vehicles	<u>102,266</u>	<u>8,034</u>	<u>-</u>	<u>110,300</u>
Total accumulated depreciation	<u>102,327</u>	<u>8,277</u>	<u>-</u>	<u>110,604</u>
Net equipment and vehicles	<u>\$ 25,638</u>	<u>\$(8,277)</u>	<u>\$ -</u>	<u>\$ 17,361</u>

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.

SULLIVAN COUNTY, BLUFF CITY, KINGSPORT ANIMAL CONTROL CENTER, INC.
Kingsport, Tennessee
NOTES TO FINANCIAL STATEMENTS

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, 2014. In December of 2014, deposit accounts were opened at a FDIC insured national bank. The credit union deposit accounts will be closed and funds transferred after all outstanding transactions have cleared.

Note 9. Related Party Transactions

During the year ended June 30, 2014, the SBK Center paid \$17,506 to City of Kingsport for fuel and water and \$1,673 to Sullivan County for waste management. As of June 30, 2014, the SBK Center owed the City of Kingsport and Sullivan County \$1,865 for these services.

As of June 30, 2014, the SBK Center owed three Board members a total of \$9,000 in short-term notes. These notes were subsequently repaid in July of 2014.

Note 10. Subsequent Events

In connection with the preparation of the financial statements, management has evaluated events subsequent to June 30, 2014 through December 31, 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, 2014

	Program Services <hr style="width: 100%;"/> June 30, 2014
Contract services	\$147,105
Depreciation	8,277
Facilities rent	24,866
Insurance	19,589
Medicine, drugs and vaccinations	19,222
Occupancy expense	45,386
Office expense	12,354
Payroll taxes and service fees	37,216
Professional services	33,100
Salaries and benefits	402,087
Shelter supplies	32,703
Telephone and answering services	11,812
Vehicle and travel	32,767
Veterinary services	70,481
Other operating expenses	<u>3,983</u>
Total expenses	<u>\$900,948</u>

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, 2014, 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 31, 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: 2014-01, 2014-02.

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. 2014-03, 2014-04, and 2014-05.

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 2014-06 and 2014-07.

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.

Dont K. Burk Associates, P.C.
Certified Public Accountants

Kingsport, Tennessee
December 31, 2014

SULLIVAN COUNTY, BLUFF CITY, KINGSPORT ANIMAL CONTROL CENTER
Kingsport, Tennessee
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2014

FINDINGS – FINANCIAL STATEMENTS AUDIT

MATERIAL DEFICIENCIES IN INTERNAL CONTROL

FINDING 2014-01: FINANCIAL REPORTING OF NON-CASH TRANSACTIONS

Condition: The portion of Sullivan County contractual revenue contributions received in the form of the salaries of the Sullivan County animal control officers who provide services for the shelters, along with the offsetting contract expense, is 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 financial accounting standards to properly record the non-cash in-kind contributions of the officer's salaries. Sullivan County does not currently provide this information when the quarterly cash contributions are remitted to the shelter.

Effect: Both municipal income and contract expense are understated, requiring a material adjustment by the amounts of the animal control officer's salaries and benefits. Without this information, management is not able to effectively monitor the financial performance of the organization.

Recommendation: We recommend that the organization record the in-kind income and associated contract expense for the animal control officer's salaries and benefits on a quarterly basis when the quarterly cash contributions are received from Sullivan County. The organization should request the necessary documentation from the County to support the recording of the journal entry to record the non-cash transaction into the accounting system.

Response: Management agrees and has requested the documentation from Sullivan County.

FINDING 2014-02: DEPOSITS

Condition: There is a lack of segregation of duties between those who receive cash payments, those who record the transactions in the accounting system, and those who deposit the cash receipts into the bank accounts. There were also certain instances where documentation of bank deposits on the daily deposit sheets could not be found.

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. COSO's Internal Control – Integrated Framework establishes five components of internal control: control environment, risk assessment, information and communication, monitoring, and control activities. Segregation of duties is an important control activity over cash to prevent fraudulent activity.

Cause: Inadequate oversight by the board of directors and management and the failure to establish the control activities of segregation of duties or other compensating controls to safeguard the deposits and failure to include all receipts on the daily deposit sheets.

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

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

Response: Management will establish controls to segregate duties.

SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

FINDING 2014-03: CLASSIFICATION OF FEE INCOME AND DISCOUNTS

Condition: There are instances where certain fees are not being recorded into the correct income category in the accounting system and where discounts given on fees are being netted with the recorded fee income instead of being separately disclosed 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: Bookkeeping errors and/or lack of supporting documentation to identify the income when entering the deposits and fees into the accounting software.

Effect: Income is misclassified among the various categories of income or identified as “other” and because the discounts are not separately recorded into the accounting software, it is not apparent how much fee income is being lost to discounts. This affects the ability of management to review the financial performance of the organization and to make appropriate budgets.

Recommendation: The fee income should be recorded in the specific category in the accounting software and the supporting documentation organized in such a way to be able to identify all sources of fee income. The discounts should be recorded separately into the accounting software, so management is able to monitor the discounts given on the adoption fees.

Response: Management has hired a financial consultant to work with employees to make sure the fees and discounts are recorded properly.

FINDING 2014-04: PAYROLL TIME CARD RECORD-KEEPING AND USE OF VACATION AND SICK/PERSONAL DAYS

Condition: There were mathematical errors in the calculation and submission of hours worked to the payroll company. In addition, time cards are not being consistently signed by the employee and the hourly employees are not required to clock in and out for lunch. The accrual and use of awarded vacation days and personal/sick days are not being monitored and the policy is not clear as to whether unused personal/sick days carry over to the following year.

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 and monitoring by the board of directors and management, mathematical errors, and lack of a clear policy regarding the carryover of personal/sick days.

Effect: Employees are not paid for the correct number of hours worked, and could be overpaid for vacation and or personal/sick days. The liability for compensated absences at period end cannot be determined by management due to the lack of record-keeping.

Recommendation: Hourly employees should be required to clock in and out for lunch and to sign their timecards. The organization's policy should be updated to address whether or not unused personal/sick days carryover from year to year and management should monitor the award, use and remaining balances of vacation and personal/days to prevent overpayment and to enable the accrual of the liability for compensated absences at each period end.

Response: Management will put procedures in place to make sure all hourly employees clock in and out for lunch and also sign time cards. The policy will be updated to address personal/sick days carryover. Management changed payroll companies beginning January 1, 2015. The new payroll company will track vacation, personal/sick days, and provide a report.

FINDING 2014-05: PETTY CASH TRANSACTIONS

Condition: Petty cash transactions are not being reported correctly in the accounting system. The checks written to replenish the petty cash drawers are being expensed directly into a "petty cash expense" account in the accounting system and the balance of the petty cash drawer is not reflected in the statement of net position.

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 management and lack of bookkeeping knowledge to correctly record the petty cash transactions into the accounting system.

Effect: Petty cash is understated on the statement of net position and the use of the petty cash funds is not posted to the correct expense account.

Recommendation: The balance in the petty cash drawers should be counted at the end of each reporting period, and the use of the petty cash should be recorded in the accounting system in the appropriate expense account on a periodic basis, whenever the petty cash drawer is replenished and at the end of each reporting period.

Response: Management will have the financial consultant to work with employees to properly record petty cash in the accounting system.

COMPLIANCE FINDINGS

FINDING 2014-06: 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: The organization will register with the State of Tennessee as a charitable organization immediately.

FINDING 2014-07: CREDIT UNION DEPOSITORY

Condition: The center maintains deposits at a credit union, but the current state laws do not allow the center to deposit funds in federal or state credit unions.

Criteria: Tennessee Coded Annotated Sections 9-4-107, 0-4-111, and 9-4-502.

Effect: The organization is in violation of Tennessee statutes.

Recommendation: The organization should move all deposits to a state or national bank to comply with Tennessee state law.

Response: An account was set up at a FDIC insured national bank. The organization is in the process of closing out the credit union accounts and transferring remaining funds to the national bank.

PRIOR YEAR FINDINGS IMPLEMENTED

MATERIAL WEAKNESSES

2013-01: Accounting System

2013-02: Uniform Chart of Accounts

2013-03: Financial Reporting

2013-04: In-kind Donations of Leased Premises