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

Kingsport, Tennessee

FINANCIAL STATEMENTS

June 30, 2015

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

MANAGEMENT

Donna Davidson	Manager

BOARD OF DIRECTORS

Tom Parham	President, City of Kingsport Representative
Jeff Fleming	City of Kingsport Representative
Susan Krein	Treasurer, City of Kingsport Representative
Richard Venable	Sullivan County Representative
Terry Harkleroad	Sullivan County Representative
Cheryl Russell	Sullivan County Representative
Irene Wells	Bluff City Representative
Carla Sentell	Secretary, Humane Society Representative
Russell Adkins	Vice President

BROWNEDWARDS
certified public accountants

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 fund net position, and cash flows as of and for the year ended June 30, 2015, 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, 2015, 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 basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 of the Sullivan County, Bluff City, Kingsport Animal Control Center, Inc.'s. The introductory section and supplemental section are presented for purposes of additional analysis and are 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 basic financial statements or to the basic 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 January 15, 2016, 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.

Brown, Edwards & Company, L.L.P.
Certified Public Accountants

Kingsport, Tennessee
January 15, 2016

SULLIVAN COUNTY, BLUFF CITY, KINGSPORT ANIMAL CONTROL CENTER, INC.
Kingsport, Tennessee
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015

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, 2015. 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 increased by $52,629 during the fiscal year. Unrestricted net position increased $57,429.
- During the year, the expenses were $52,629 less than the $846,768 generated in revenues. This is $240,134 less than last year, when expenses exceeded revenue by $187,505.

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

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 increased $52,629 between fiscal years 2014 and 2015 with a positive balance of $22,105 (see Table A-1). In comparison, last year's net position decreased $53,829 between fiscal years 2013 and 2014. The difference between the two years is primarily due to decreased salaries, benefits, payroll taxes, and professional expenses incurred in the 2015 fiscal year.

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

	2015	2014	Total Percentage Change
Current and other assets	$ 43,243	$ 34,808	24.2%
Noncurrent assets	12,561	17,361	-27.7%
Total assets	$ 55,804	$ 52,169	7.0%
Long-term debt outstanding	$ -	$ -	-%
Other liabilities	33,699	82,693	-59.2%
Total liabilities	$ 33,699	$ 82,693	-59.2%
Net position			
Invested in capital assets	$ 12,561	$ 17,361	-27.7%
Restricted	564	564	- %
Unrestricted	8,980	(48,449)	118.0%
Total net position	$ 22,105	$(30,524)	172.5%

Net position of the SBK Center increased approximately 173% to a positive $22,105. 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 $57,429 increase at the end of this year, and net position invested in capital assets decreased $4,800.

Changes in net position. The SBK Center's total revenues increased by about 18.7% to $846,768 (see Table A-2). Approximately 69% of the SBK Center's revenue comes from city and county appropriations. Approximately 18% comes from fees charged for services. Most of the rest is from donations.

The total cost of all programs and services decreased approximately $106,809 or 12%. The SBK Center's expenses cover a range of services with about half related to salaries.

Table A-2

Revenues	2015	2014	Total Percentage Change
Investment income	$ 152	$ 457	-66.7%
In-kind use of facilities	23,998	23,998	-%
City and county appropriations	558,135	485,317	15.0%
Public donations and grants	109,758	65,544	67.5%
Charges for services	149,859	138,127	8.5%
Insurance proceeds	5,116	-	n/a
Loss on disposal of capital asset	(250)	-	n/a
Total revenue	$ 846,768	$ 713,443	18.7%
Expenses			
Contract services	$ 151,914	$ 147,105	3.3%
Depreciation	4,550	8,277	-45.0%
Facilities rent	24,230	24,866	-2.6%
Fundraising expense	14,298	-	n/a
Insurance	19,211	19,589	-1.9%
Medicine, drugs, vaccinations	10,548	19,222	-45.1%
Occupancy expenses	45,485	45,386	0.2%
Office expense	13,424	12,354	8.7%
Payroll taxes and service fees	30,613	37,216	-17.7%
Professional services	29,070	33,100	-12.2%
Salaries and benefits	339,710	402,087	-15.5%
Shelter supplies	14,384	32,703	-56.0%
Telephone and answering service	16,154	11,812	36.8%
Vehicle and travel	27,602	32,767	-15.8%
Veterinarian services	49,177	70,481	-30.2%
Other operating losses	2,355	-	n/a
Other operating services	1,414	3,983	-35.4%
Total expenses	$ 794,139	$ 900,948	-11.9%
Increase (Decrease) in net position	$ 52,629	$(187,505)	

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2015, the SBK Center had $12,561 in capital assets.

Long-Term Debt

At the end of fiscal year 2015, 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, 2015

	2015
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 27,777
Accounts receivable	6,230
Prepaid expenses	4,093
Deposits	300
Inventory	4,279
Total current assets	42,679
RESTRICTED ASSETS:	
Restricted cash and cash equivalents	564
Total donor restricted funds	564
NON-CURRENT ASSETS:	
Capital Assets:	
Equipment	1,703
Vehicles	111,456
	113,159
Less: Accumulated depreciation	(100,598)
Total capital assets	12,561
Total noncurrent assets	12,561
Total assets	55,804
DEFERRED OUTFLOWS OF RESOURCES	-
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable	31,009
Accrued liabilities	2,690
Total liabilities	33,699
DEFERRED INFLOWS OF RESOURCES	-
NET POSITION:	
Investment in capital assets	12,561
Restricted for:	
Low income spay/neuter fees	564
Unrestricted	8,980
Total net position	$ 22,105

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, 2015

	2015
OPERATING REVENUES:	
Charges for services	$ 149,859
Total operating revenues	149,859
OPERATING EXPENSES:	
Contract services	151,914
Depreciation	4,550
Facilities rent	24,230
Fundraising expense	14,298
Insurance	19,211
Medicine, drugs, and vaccinations	10,548
Occupancy expenses	45,485
Office expense	13,424
Payroll taxes and service fees	30,613
Professional services	29,070
Salaries and benefits	339,710
Shelter supplies	14,384
Telephone and answering service	16,154
Vehicle and travel	27,602
Veterinarian services	49,177
Other operating losses	2,355
Other operating expenses	1,414
Total expenses	794,139
Operating loss	(644,280)
NONOPERATING REVENUE:	
City appropriation	200,800
County appropriation	357,335
In-kind use of facilities	23,998
Public donations & grants	109,758
Investment income	152
Insurance proceeds	5,116
Loss on disposal of capital assets	(250)
Total nonoperating revenues	696,909
INCREASE IN NET POSITION	52,629
TOTAL NET POSITION - BEGINNING	(30,524)
TOTAL NET POSITION - ENDING	$ 22,105

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
For the Year Ended June 30, 2015

	2015
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	$ 151,296
Cash payments to employees for services	(329,796)
Cash payments to suppliers for goods and services	(455,321)
Net cash used for operating activities	(633,821)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Operating appropriations received	558,135
Unrestricted gifts received	109,758
Repayment of short term loans	(9,000)
Changes in cash overdraft	(23,472)
Net cash provided by noncapital financing activities	635,421
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest and dividends on investments	152
Insurance proceeds from involuntary conversion	5,116
Net cash provided by investing activities	5,268
NET INCREASE IN CASH	6,868
CASH AT BEGINNING OF PERIOD	21,473
CASH AT END OF PERIOD	28,341
Unrestricted cash and cash equivalents	27,777
Restricted cash and cash equivalents	564
Reconciliation of Operating Loss to Net Cash used for Operating Activities:	
Operating loss	(644,280)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	4,550
Donated use of facilities	23,998
Change in assets and liabilities:	
Decrease in accounts receivable	2,637
(Increase) decrease in prepaids	75
(Increase) in inventory	(4,279)
(Decrease) in accounts payable	(15,450)
(Decrease) in accrued liabilities	(1,072)
Net cash used for operating activities	$(633,821)

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

Note 1. Summary of Significant Accounting Policies

The Sullivan County, Bluff City, Kingsport Animal Control Center, Inc. (SBK Center) is a joint venture formed by an interlocal agreement between Sullivan County and the cities of Bluff City and Kingsport and was organized under the laws of the State of Tennessee on February 3, 2011. The purpose of the SBK Center is to provide animal control, to prevent cruelty to animals and to operate 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 and 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 based upon specific identification or a defined allocation method

Cash - Donor Restricted - At June 30, 2015, $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

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, 2015, 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 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 will *not* be recognized as an inflow of resources (revenue) until that time.

For the year ended June 30, 2015, 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.

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, 2015, amounted to $4,550.

Fixed assets are comprised of the following:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Cost				
Equipment	$ 1,703	$ -	$ -	$ 1,703
Vehicles	126,262	-	14,806	111,456
Total Cost	127,965	-	14,806	113,159
Accumulated Depreciation				
Equipment	304	243	-	547
Vehicles	110,300	4,307	14,556	100,051
Total accumulated depreciation	110,604	4,550	14,556	100,598
Net equipment and vehicles	$ 17,361	$(4,550)	$ 250	$ 12,561

Note 7. Economic Dependence

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

Note 8. Deposits

The SBK Center maintains deposit accounts at one bank in Kingsport, Tennessee. The deposit accounts at the bank are insured through the FDIC up to $250,000. All of the SBK Center's deposits were fully insured at June 30, 2015.

Note 9. Related Party Transactions

During the year ended June 30, 2015, the SBK Center paid $13,259 to City of Kingsport for fuel and water and $2,610 to Sullivan County for waste management. As of June 30, 2015, the SBK Center owed the City of Kingsport and Sullivan County $870 for these services.

Note 10. Subsequent Events

In connection with the preparation of the financial statements, management has evaluated events subsequent to June 30, 2015 through January 15, 2016, 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, 2015

	Program Services	Support Services		Total Expenses
	Clinic Services	General & Administrative	Fundraising	
Contract services	$151,914	$ -	$ -	$151,914
Depreciation	4,550	-	-	4,550
Facilities rent	24,230	-	-	24,230
Fundraising expense	-	-	14,298	14,298
Insurance	5,558	13,653	-	19,211
Medicine, drugs, and vaccines	10,548	-	-	10,548
Occupancy expense	45,485	-	-	45,485
Office expense	7,367	6,057	-	13,424
Payroll taxes and service fees	26,186	1,367	3,060	30,613
Professional services	-	29,070	-	29,070
Salaries and benefits	274,038	25,672	40,000	339,710
Shelter supplies	7,256	7,128	-	14,384
Telephone and answering services	16,154	-	-	16,154
Vehicle and travel	27,602	-	-	27,602
Veterinary services	49,177	-	-	49,177
Other operating losses	-	2,355	-	2,355
Other operating expenses	214	1,200	-	1,414
Total expenses	$650,279	$86,502	$57,358	$794,139

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, 2015, and the related statements of revenues, expenses, and changes in fund 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 January 15, 2016.

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 deficiency described in the accompanying schedule of findings and responses as 2015-01 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies. 2015-02, 2015-03, 2015-04, 2015-05, 2015-06.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sullivan County, Bluff City, Kingsport Animal Control Center, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Brown, Edwards & Company, L.L.P.
Certified Public Accountants

Kingsport, Tennessee
January 15, 2016

SULLIVAN COUNTY, BLUFF CITY, KINGSPORT ANIMAL CONTROL CENTER
Kingsport, Tennessee
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2015

FINDINGS – FINANCIAL STATEMENTS AUDIT

MATERIAL WEAKNESSES IN INTERNAL CONTROL

FINDING 2015-01: DEPOSITS

Condition: There is a lack of segregation of duties between those who receive cash payments, those who record the transactions into the accounting system, and those who deposit the cash receipts into the bank accounts. There were also certain instances in which documentation of bank deposit slips and daily deposit sheets could not be found. This is a repeat finding from the prior year; Finding 2014-02.

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 help prevent fraudulent activity.

Cause: Inadequate oversight by the board of directors and management and the failure to establish the control activity, segregation of duties or other compensating controls to safeguard the deposits.

Effect: Theft of cash donations and adoption fees by a former member of management. Misstatement of the daily operating fees and donations.

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 and the deposit of the cash receipts into the bank accounts.

Response: The member of management that was responsible for the theft of cash was terminated in November of 2014. Afterwards, controls were established to segregate duties related to the collection and recording of cash receipts.

SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

FINDING 2015-02: CLASSIFICATION OF FEE INCOME AND DISCOUNTS

Condition: There are instances where certain fees are not being recorded in 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. This is a repeat finding from the prior year audit, Finding 2014-03.

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 in 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 as to be able to identify all sources of fee income. The discounts should be recorded separately in the accounting software, so management is able to monitor the discounts given on the adoption fees.

Response: Management has put procedures into place to ensure that fees are recorded in the correct income category and that discounts are entered into the accounting system separately.

FINDING 2015-03: PAYROLL TIME CARD RECORD-KEEPING AND USE OF VACATION AND SICK/PERSONAL DAYS

Condition: Some hourly employees are not clocking in and out for lunch periods. Also, no written policy exists regarding the carryover of personal days, therefore there is confusion among management and employees whether personal days are eligible to be carried over. This is a repeat finding from the prior year audit, Finding 2014-04.

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, and a lack of written policy regarding the carryover of sick days.

Effect: Employees could be overpaid for sick days. Employees' pay may not reflect their time worked properly if they are not clocking in and out for lunch.

Recommendation: Hourly employees should be required to clock in and out for lunch. A written policy should be adopted regarding the carryover of sick days and that policy should be communicated to members of management and employees of the organization.

Response: Management will put procedures into 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 the carryover of personal/sick days.

FINDING 2015-04: SAFEGUARDING OF ASSETS

Condition: There is a lack of consistent measures taken to safeguard assets from theft.

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. Physical security over assets is an important control activity to safeguard and protect assets from loss or damage due to accident, natural disaster, negligence or intentional acts of fraud, theft, or abuse.

Cause: Inadequate oversight by the board of directors and management to consistently apply the control activity of safeguarding assets, in order to protect assets from loss or damage.

Effect: Weekend deposits were stolen from a locked filing cabinet. Deposits were normally kept in the safe. However, at the time, the safe was being used to store euthanasia drugs, therefore the deposits were locked in a filing cabinet. A day worker was able to pry open the cabinet and steal the weekend deposits.

Recommendation: Use the drop box at the bank to make weekend deposits to help prevent the deposits from being stolen over the weekend when there is less supervision for the day workers on site.

Response: The bank drop box is now used to make deposits on the weekends instead of keeping the deposits on site.

FINDING 2015-05: REIMBURSEMENTS

Condition: There is a lack of consistent procedures applied to reimbursements issued to employees. Some reimbursement checks are issued without receipt documentation to support the transaction.

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. Failure to ensure all checks issued are supported with proper documentation.

Effect: Reimbursements were issued for expenditures without sufficient documentation. Expenses could be overstated and misappropriation of cash could occur if reimbursements are issued for items purchased that are not related to shelter operations.

Recommendation: Put procedures in place to ensure all reimbursements issued are supported with proper documentation.

Response: Procedures exist for the process of issuing reimbursements and management will ensure that the procedures are implanted.

FINDING 2015-06: IN-KIND DONATIONS

Condition: In-kind donations of cat and dog food, cat litter, and cleaning supplies and donated professional services are not being recorded in the accounting system.

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

Cause: Inadequate oversight by the board of directors and management. Improper record keeping of in-kind donations.

Effect: Without in-kind donations and related expenses recorded in the accounting system, the board of directors, management, and other users of the financial statements are unable to get an accurate picture of the true costs to run the animal shelter.

Recommendation: Keep detailed records of all in-kind donations and time spent donated by professionals and record these donations and related expenses in the accounting system at regular intervals during the period through journal entries.

Response: Management agrees and will take steps to ensure the in-kind donations and related expenses are properly recorded.

PRIOR YEAR FINDINGS IMPLEMENTED

MATERIAL WEAKNESSES

2014-01: Financial Reporting of Non-Cash Transactions

SIGNIFICANT DEFICIENCIES

2014-05: Petty Cash Transactions

COMPLIANCE FINDINGS

2014-06: Registration with State of Tennessee as Charitable Organization
2014-07: Credit Union Depository