

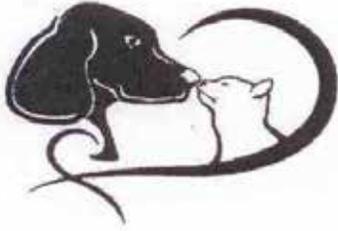
**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.**

**FINANCIAL REPORT**

**JUNE 30, 2015**

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
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June 30, 2015**

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Washington County-Johnson City Animal Shelter  
3411 North Roan Street  
Johnson City, TN 37601  
Phone 423-926-8769

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December 15, 2015

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

This report consists of management’s representations concerning the finances of Washington County - Johnson City Animal Control Center, Inc. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of Washington County - Johnson City Animal Control Center, Inc. has established a comprehensive internal control framework that is designed both to protect the Organization’s assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Center’s financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Center’s comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Center’s financial statements have been audited by Eddy & Eddy, CPAs, P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Center for the fiscal year ended June 30, 2015 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the Center’s financial statements for the fiscal year ended June 30, 2015 are fairly presented in conformity with GAAP. The independent auditor’s report is presented as the first component of the financial section of this report.

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

## **Profile of the Center**

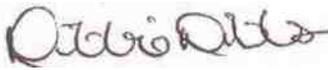
Washington County - Johnson City Animal Control Center, Inc. was chartered as a non-profit in 1985 and is designed to provide a community wide resource. The Center provides adoption and low cost spay / neuter programs and pick-up for stray and unwanted animals. In addition, the Center serves the community by investigating suspected animal cruelty, removing dead animals from roadways and private property, and educating the general public about animal care. During the fiscal year ended June 30, 2015, the shelter took in 4,924 animals.

The Center operates under the board-director form of government. The board is responsible, among other things, for adopting the budget and hiring the Center's director. The Center's director is responsible for carrying out the policies of the board and for overseeing the day-to-day operations of the Center.

## **Pension and other postemployment benefits**

Washington County - Johnson City Animal Control Center, Inc. employees are members of the Political Subdivision Pension Plan, administered by the Tennessee Consolidated Retirement System. Each year, the Center is required to contribute at an actuarially determined rate to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. Additional information on the Center's pension arrangements can be found in the notes to the financial statements.

Respectfully submitted,



Debbie Dobbs  
Executive Director

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

**BOARD MEMBERS**

For the Year Ended June 30, 2015

President	
City Representative	Pete Peterson
Vice President	
Washington County Humane Society Representative (beginning October 2014)	Jim Reel
Washington County Humane Society Representative (through September 2014)	Lucinda Grandy
City Representative	Ralph Van Brocklin
County Representative (through September 2014)	Pat Wolfe
County Representative (through September 2014)	David Tomita
County Representative (beginning October 2014)	Joe Grandy
County Representative (beginning October 2014)	Gary McAllister

**MANAGEMENT OFFICIALS**

For the Year Ended June 30, 2015

Director, Board Secretary	Debbie Dobbs
Assistant Director	Joy Sexton



Member of  
TENNESSEE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

PROFESSIONAL CORPORATION  
4718 Lake Park Drive, Suite 1  
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## INDEPENDENT AUDITOR'S REPORT

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

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

We have audited the accompanying statement of net position of Washington County – Johnson City Animal Control Center, Inc. (a Tennessee nonprofit organization), and the related statements of revenues, expenses, and changes in net position, and cash flows as of and for the year ended June 30, 2015, and the related notes to the financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Washington County – Johnson City Animal Control Center, Inc. as of June 30, 2015, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Change in Accounting Principle***

As described in Note 15 to the financial statements, in the fiscal year ending June 30, 2015, the District adopted new accounting guidance, GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

### ***Net Assets***

As discussed in Note 16 to the financial statements, Washington County - Johnson City Animal Control Center, Inc. has a net deficiency in unrestricted net assets. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in net pension liability (asset) and related ratios based on participation in the public employee pension plan of TCRS, and the schedule of contributions based on participation in the public employee pension plan of TCRS on pages 7 through 11 and pages 30 and 31 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 Washington County – Johnson City Animal Control Center, Inc.’s financial statements. The introductory section and supplemental section are presented for the purposes of additional analysis and are not a required part of the financial statements.

The introductory and supplemental sections are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The supplemental section has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental section on pages 30 and 31 is fairly stated, in all material respects, in relation to the financial statements as a whole.

The introductory section on pages 1 through 3 has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2015, on our consideration of Washington County – Johnson City Animal Control Center, Inc.’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Washington County – Johnson City Animal Control Center, Inc.’s internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eddy + Eddy".

Eddy & Eddy, CPAs, P.C.  
Johnson City, Tennessee  
December 15, 2015

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
Management’s Discussion and Analysis  
June 30, 2015**

This section of Washington County – Johnson City Animal Control Center, Inc.’s annual financial report presents our discussion and analysis of the Center’s financial performance during the fiscal year that ended on June 30, 2015. Please read it in conjunction with the transmittal letter at the front of this report and the Center’s financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- The Center’s total net position increased by \$927,721 during the fiscal year. Unrestricted net position decreased by \$187,707.
- During the year, the Center’s expenses were \$955,654 less than the \$1,497,305 generated in revenues. This is \$439,446 more than last year, when revenues exceeded expenses by \$516,208.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of four parts – management’s discussion and analysis (this section), the basic financial statements, required supplementary information, and supplemental information. The basic financial statements of the Center are proprietary fund statements. Proprietary fund statements offer short- and long-term financial information about activities that operate like a business. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

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

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

	<b>Fund Statements</b>
	<b>Proprietary Funds</b>
Scope	Activities the Center operates similar to private businesses
Required financial statements	Statement of net position Statement of revenues, expenses, and changes in net position Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus
Type of asset / deferred outflow of resources / liability / deferred inflow of resources information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital and short-term and long-term
Type of inflow / outflow information	All revenues and expenses during the year, regardless of when cash is received or paid

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
Management’s Discussion and Analysis  
June 30, 2015**

**Fund Financial Statements**

The fund financial statements provide more detailed information about the Center.

- *Proprietary funds* – Services for which the Center charges customers a fee are generally reported in proprietary funds. Proprietary funds provide both long-term and short-term financial information.

**FINANCIAL ANALYSIS OF THE ORGANIZATION AS A WHOLE**

**Net position.** The Center’s combined net position increased \$927,721 between fiscal years 2014 and 2015 with an ending balance of \$2,200,217. (See Table A-1.) The increase included \$2,960,891 increase in capital assets and \$1,361,803 increase in long-term debt resulting from the construction and financing of a new facility, and \$929,886 in capital contributions. In comparison, last year net position increased \$516,208.

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

	<u>2014</u>	<u>2015</u>	<u>Percentage Change</u>
Current and other assets	\$ 685,552	\$ 281,357	-59.0%
Capital assets	<u>631,934</u>	<u>3,592,825</u>	468.5%
Total assets	<u>1,317,486</u>	<u>3,874,182</u>	194.1%
Deferred outflows of resources	<u>-</u>	<u>-</u>	-
Long-term debt outstanding	9,382	1,371,185	14515.1%
Other liabilities	<u>35,608</u>	<u>261,679</u>	634.9%
Total liabilities	<u>44,990</u>	<u>1,632,864</u>	3529.4%
Deferred inflows of resources	<u>-</u>	<u>41,101</u>	-
Net position			
Net investment in capital assets	622,552	2,175,896	249.5%
Restricted	581,580	143,664	-75.3%
Unrestricted	<u>68,364</u>	<u>(119,343)</u>	-274.6%
Total net position	<u>\$ 1,272,496</u>	<u>\$ 2,200,217</u>	72.9%

Net position of the Center increased approximately 73 percent to \$2,200,217. However, some components of net position either are restricted as to the purposes they can be used for or are invested in capital assets (buildings, equipment, office equipment, and so on). Consequently, the unrestricted portion of net position showed an \$187,707 decrease at the end of this year resulting in a negative balance, and net position – net investment in capital assets increased \$1,553,344.

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
Management’s Discussion and Analysis  
June 30, 2015**

As a result of the Center implementing GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, the June 30, 2014 net position was decreased by \$27,933. These statements also resulted in the recording of deferred inflows of resources, net pension asset, and pension expense.

**Changes in net position.** The Center’s total revenues increased by about 38.2 percent to \$1,497,305. (See Table A-2.) Approximately 31 percent of the Center’s revenue comes from city and county appropriations. Approximately 6 percent comes from fees charged for services. Approximately 62 percent comes from capital contributions. Most of the rest is from other donations.

The total cost of all programs decreased approximately \$25,400, or about 4.5 percent, partly because last year’s expenses included \$17,900 directly related to the new facility. The Center’s expenses cover a range of services with a little more than half related to salaries.

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
Management’s Discussion and Analysis  
June 30, 2015**

**Table A-2  
Changes in Washington County - Johnson City Animal Center, Inc.'s Net Position**

	<u>2014</u>	<u>2015</u>	<u>Percentage Change</u>
<b>Revenues</b>			
Charges for Sales and Services	\$ 87,665	\$ 83,664	-4.6%
Appropriations	349,750	460,123	31.6%
Insurance Reimbursements	278	1,385	398.2%
Public Donations	137,996	94,775	-31.3%
Capital Contributions	507,409	929,886	83.3%
Investment Income	161	520	223.0%
Gain (Loss) on Disposal of Fixed Assets	-	(73,048)	
Total revenues	<u>1,083,259</u>	<u>1,497,305</u>	38.2%
<b>Expenses</b>			
Professional Services	29,151	6,975	-76.1%
Maintenance - Structures and Equipment	7,344	8,033	9.4%
Depreciation	9,188	12,329	34.2%
Employee Benefits	50,686	36,009	-29.0%
Insurance	12,584	11,064	-12.1%
Office Expenses	13,556	12,856	-5.2%
Supplies	43,644	54,981	26.0%
Other Operating Expenses	14,413	16,126	11.9%
Payroll Taxes	21,946	22,982	4.7%
Salaries	288,539	300,838	4.3%
Utilities	24,440	25,574	4.6%
Vehicle and Travel	33,660	25,127	-25.4%
Property Taxes	8,518	8,757	2.8%
Loan Closing Costs	9,382	-	-100.0%
Total expenses	<u>567,051</u>	<u>541,651</u>	-4.5%
Revenues Exceed Expenses	516,208	955,654	85.1%
<b>Cumulative Effect of</b>			
Change in Accounting Principle	-	(27,933)	
Increase (decrease) in Net Position	<u>\$ 516,208</u>	<u>\$ 927,721</u>	-79.7%

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
Management’s Discussion and Analysis  
June 30, 2015**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal year 2015 the Center had invested \$3,727,496 in capital assets, including land, equipment and building. This amount represents \$2,758,418 increase from last year, which results from the construction of the new facility and related new equipment. In August and September 2012, the Center entered into contracts with an architect and another firm to conduct feasibility study and fundraising services, both in connection with the future construction of a new 15,000 square foot animal shelter facility on land at North Roan Street, Johnson City, Tennessee. In June 2013, the City of Johnson City included in its debt service budget up to \$1.5 million for the Animal Shelter. At the November 5, 2013 board meeting, the Center approved a project management agreement between Burleson Construction Co., Inc. and the City of Johnson City / Washington County Animal Control Board. On June 2, 2014, the Center entered into an agreement with J A Street and Associates for the construction of a new facility, with expected construction completion date of February 2015. The guaranteed maximum price was set at \$2,636,897, subject to additions and deductions by change order as provided in the contract documents. The new facility was completed and occupied in June 2015.

**Long-term Debt**

On June 30, 2014, the Center entered into a loan agreement with Eastman Credit Union for the construction of the new facility. The construction loan converted to permanent long-term debt on July 29, 2015, with a principal disbursement of \$1,500,000 to pay off the construction mortgage.

**CONTACTING THE CENTER’S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Center’s finances and to demonstrate the Center’s accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Washington County – Johnson City Animal Control Center, Inc., 3411 North Roan Street, Johnson City, TN 37601.

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
Statement of Net Position  
June 30, 2015**

**ASSETS:**

Current Assets

Cash and Cash Equivalents	\$ 83,357
Accounts Receivable, net	4,584
Prepaid Items	20,609
Pledges Receivable	<u>38,927</u>
Total Current Assets	<u>147,477</u>

Noncurrent Assets

Donor Restricted Cash	<u>95,222</u>
Pledges Receivable - Long-Term, net	<u>9,514</u>
Net Pension Asset	<u>29,144</u>

Capital Assets

Land	502,210
Buildings and Equipment	3,225,286
Less Accumulated Depreciation	<u>(134,671)</u>
Total Capital Assets	<u>3,592,825</u>

Total Noncurrent Assets	<u>3,726,705</u>
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Total Assets	<u>3,874,182</u>
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**LIABILITIES:**

Current Liabilities

Accounts Payable	182,285
Spay / Neuter Fees Payable	580
Accrued Liabilities	28,527
Accrued Interest	4,543
Current Portion of Long-Term Debt	<u>45,744</u>
Total Current Liabilities	<u>261,679</u>

Long-Term Liabilities

Note Payable	<u>1,371,185</u>
Total Long-Term Liabilities	<u>1,371,185</u>

Total Liabilities	<u>1,632,864</u>
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**DEFERRED INFLOWS OF RESOURCES:**

Pension Changes in Experience	3,123
Pension Changes in Investment Earnings	<u>37,978</u>
Total Deferred Inflows of Resources	<u>41,101</u>

**NET POSITION:**

Net investment in Capital Assets	2,175,896
Restricted for:	
Capital Projects	50,772
Debt Service	92,892
Unrestricted	<u>(119,343)</u>
Total Net Position	<u>\$ 2,200,217</u>

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

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
Statement of Revenues, Expenses and Changes in Net Position  
For the Fiscal Year Ended June 30, 2015**

<b>OPERATING REVENUES</b>	
Charges for Sales and Services	\$ <u>83,664</u>
Total Operating Revenues	<u>83,664</u>
<b>EXPENSES</b>	
Accounting and Auditing	6,975
Maintenance - Structures and Equipment	8,033
Depreciation Expense	12,329
Employee Benefits	36,009
Insurance	11,064
Office Expense	12,856
Supplies	54,981
Other Operating Expenses	16,126
Payroll Taxes	22,982
Salaries	300,838
Utilities	25,574
Vehicle and Travel	<u>25,127</u>
Total Operating Expenses	<u>532,894</u>
Operating Income (Loss)	<u>(449,230)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
City Appropriation	295,373
County Appropriation	164,750
Insurance Reimbursements	1,385
Public Donations	94,775
Investment Income	520
Gain (Loss) on Disposal of Fixed Assets	(73,048)
Property Taxes	<u>(8,757)</u>
Total Nonoperating Revenues (Expenses)	<u>474,998</u>
Income (Loss) Before Contributions	<u>25,768</u>
Capital Contributions	<u>929,886</u>
<b>CHANGE IN NET POSITION</b>	<u>955,654</u>
<b>NET POSITION - BEGINNING OF YEAR BEFORE RESTATEMENT</b>	1,272,496
<b>CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE</b>	<u>(27,933)</u>
<b>NET POSITION - BEGINNING OF YEAR AS RESTATED</b>	<u>1,244,563</u>
<b>NET POSITION - END OF THE YEAR</b>	<u>\$ 2,200,217</u>

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

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2015**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Received from Customers	\$ 83,408
Payments to Employees for Payroll	(297,556)
Payments to Suppliers for Goods and Services	<u>(42,396)</u>
Net Cash Provided by (Used in) Operating Activities	<u>(256,544)</u>
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Operating Appropriations Received	460,123
Insurance Reimbursement	1,385
Unrestricted Gifts Received	94,775
Property Taxes	<u>(8,757)</u>
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>547,526</u>
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Gifts Restricted for Capital Purposes	847,038
Proceeds from Capital Debt	1,407,547
Proceeds from Sale of Capital Assets	500
Payments for Capital Purposes	<u>(2,944,068)</u>
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(688,983)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from Sales and Maturities of Investments	-
Interest and Dividends on Investments	<u>520</u>
Net Cash Provided by (Used in) Investing Activities	<u>520</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 (397,481)
Cash and Cash Equivalents - Beginning of the Year	<u>576,060</u>
Cash and Cash Equivalents - End of the Year	<u>\$ 178,579</u>
 <b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>	
Operating Income (Loss)	\$ (449,230)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:	
Depreciation	12,329
(Increase) Decrease in Accounts Receivable	(256)
(Increase) Decrease in Prepaids	(11,671)
(Increase) Decrease in Net Pension Asset	(29,144)
Increase (Decrease) in Accounts Payable	179,007
Increase (Decrease) in Spay / Neuter Deposits Payable	(2,280)
Increase (Decrease) in Accrued Liabilities	(943)
Increase (Decrease) in Accrued Interest	4,543
Increase (Decrease) in Pension Changes in Experience	3,123
Increase (Decrease) in Pension Investment Earnings	<u>37,978</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (256,544)</u>

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

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
Notes to the Financial Statements  
June 30, 2015**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Washington County – Johnson City Animal Control Center, Inc. was organized under the laws of the State of Tennessee in April 1985. Its Board of Directors serves as its governing body.

Basis of Accounting

The financial statements of Washington County – Johnson City Animal Control Center, Inc. have been prepared on the accrual basis of accounting. In the accrual basis of accounting, revenues are generally recognized when earned rather than when received and expenses recognized when the obligation is incurred rather than when paid. The Center distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the Center’s principal ongoing operations. The principal operating revenues of the Center are charges to customers for services. All revenues not meeting this definition are reported as nonoperating revenues. Operating expenses of the Center include salaries and associated taxes and benefits as well as costs of feeding and caring for the animals and maintaining the Center’s buildings, grounds and equipment.

When both restricted and unrestricted resources are available for use, it is the Center’s policy to use restricted resources first, then to use unrestricted resources.

Basis of Presentation

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

Reporting Entity

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

Estimates

The preparation of financial statements in conformity with principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
Notes to the Financial Statements  
June 30, 2015**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

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

Investment Valuation

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

Donor Restricted Assets

At June 30, 2015, \$95,222 of the Center's cash was restricted by donors for the Building Fund. There were \$929,886 private donations to the Building Fund during the year ended June 30, 2015.

Property and Equipment

Property and equipment are stated at cost, or in the case of contributed assets, at their fair value at the time of the gift. Depreciation is computed principally using the straight-line method over the estimated useful lives of the respective assets – 5 to 10 years for equipment and vehicles and 40 years for buildings. The Center's capitalization policy is to capitalize assets costing \$1,500 or more with a life greater than one year.

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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Washington County – Johnson City Animal Control Center's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from Washington County – Johnson City Animal Control Center's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
Notes to the Financial Statements  
June 30, 2015**

**NOTE 2. LEASE COMMITMENTS**

In June, 1986 the Center entered into a lease agreement with the City of Johnson City for land where the Animal Control former building is located. The terms of the lease are \$3 per year for forty years with an option to renew for another forty years as long as the land and any structures are used for animal control purposes.

**NOTE 3. INCOME TAXES**

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

**NOTE 4. ADVERTISING**

The Center expenses advertising costs as incurred. Total advertising expense for the year ended June 30, 2015 was \$2,128.

**NOTE 5. COMPENSATED ABSENCES**

Employees of the Center are entitled to receive paid sick leave. Starting with the first day of employment, all regular full-time employees accrue one day of sick leave each month. Part-time employees accumulate sick leave prorated based on the number of hours worked each week. Temporary employees are not eligible for sick leave. An employee is allowed to accumulate a maximum of ninety days sick leave. Employees have the option of receiving payment, at the employee's regular rate, for those days in excess of sixty days toward the maximum ninety days allowable. Upon termination of an employee, no payment for sick leave will be made. Subsequent to June 30, 2015, no employees exercised the cash option; therefore, no accrued sick leave is included in accrued expenses as of June 30, 2015.

Full-time employees, with less than fifteen years of service, are entitled to ten days of vacation per year. Full-time employees with fifteen years or more of continuous service are granted fifteen days of vacation per year. Part-time employees are granted vacation time based on the number of hours worked. Vacation time is encouraged to be used by the end of each calendar year. Full-time employees may carry over into the next year a maximum of 40 hours. Part-time employees may carry over a maximum of ten hours.

Upon termination, an employee with at least twelve consecutive months of service may be entitled to payment for accrued vacation time, provided the requested two-week notice of resignation is given. Accrued vacation of \$12,759 is included in accrued liabilities as of June 30, 2015.

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
Notes to the Financial Statements  
June 30, 2015**

NOTE 6. INSURANCE

The Center is subject to a variety of claims ranging from workers' compensation claims, employment claims and a multiplicity of other liability claims. The Center has purchased insurance coverage for general liability, personal injury, automobile and workers' compensation. The Center is not covered by insurance of any other governmental entity. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 7. GENERAL INFORMATION ABOUT THE PENSION PLAN

*Plan Description*

Employees of Washington County – Johnson City Animal Control Center, Inc. are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34 – 37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs).

*Benefits Provided*

Tennessee Code Annotated Title 8, Chapters 34 – 37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
Notes to the Financial Statements  
June 30, 2015**

NOTE 7. GENERAL INFORMATION ABOUT THE PENSION PLAN (Continued)

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2<sup>nd</sup> of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

*Employees Covered by Benefit Terms*

At the measurement date of June 30, 2014, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	3
Active employees	<u>6</u>
	<u><u>11</u></u>

Effective July 1, 2010, the plan was closed to new participants.

*Contributions*

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Washington County – Johnson City Animal Control Center employees do not contribute any portion of their salary to the TCRS plan. Washington County – Johnson City Animal Control Center makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, employer contributions for Washington County – Johnson City Animal Control Center were \$20,867 based on a rate of 11.94 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Washington County – Johnson City Animal Control Center’s state shared taxes if required employer contributions are not remitted. The employer’s actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
Notes to the Financial Statements  
June 30, 2015**

NOTE 7. GENERAL INFORMATION ABOUT THE PENSION PLAN (Continued)

*Net Pension Liability (Asset)*

Washington County – Johnson City Animal Control Center’s net pension liability (asset) was measured as of June 30, 2014, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

*Actuarial Assumptions*

The total pension liability as of June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.5 percent

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
Notes to the Financial Statements  
June 30, 2015**

NOTE 7. GENERAL INFORMATION ABOUT THE PENSION PLAN (Continued)

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. Equity	6.46%	33%
Developed Market International Equity	6.26%	17%
Emerging Market International Equity	6.40%	5%
Private Equity and Strategic Lending	4.61%	8%
U.S. Fixed Income	0.98%	29%
Real Estate	4.73%	7%
Short-term Securities	0.00%	<u>1%</u>
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

*Discount Rate*

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from Washington County – Johnson City Animal Control Center will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
Notes to the Financial Statements  
June 30, 2015**

NOTE 7. GENERAL INFORMATION ABOUT THE PENSION PLAN (Continued)

**Changes in the Net Pension Liability (Asset)**

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance at June 30, 2013	\$ 565,923	\$ 518,751	\$ 47,172
Changes for the year:			
Service Cost	14,996	-	14,996
Interest	43,172	-	43,172
Differences Between Expected and Actual Experience	(28,788)	-	(28,788)
Contributions - Employer	-	19,239	(19,239)
Contributions - Employees	-	-	-
Net Investment Income	-	86,694	(86,694)
Benefit payments, Including Refunds of Employee Contributions	(10,601)	(10,601)	-
Administrative Expense	-	(237)	237
 Net Changes	 <u>18,779</u>	 <u>95,095</u>	 <u>(76,316)</u>
 Balance at June 30, 2014	 <u>\$ 584,702</u>	 <u>\$ 613,846</u>	 <u>\$ (29,144)</u>

*Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate*

The following presents the net pension liability (asset) of Washington County – Johnson City Animal Control Center calculated using the discount rate of 7.5 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Washington County - Johnson City Animal Control Center's Net Pension Liability (Asset)	\$ 40,831	\$ (29,144)	\$ (88,814)

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
Notes to the Financial Statements  
June 30, 2015**

NOTE 7. GENERAL INFORMATION ABOUT THE PENSION PLAN (Continued)

**Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

*Pension Expense*

For the year ended June 30, 2015, Washington County – Johnson City Animal Control Center recognized pension expense of \$4,891.

*Deferred Outflows of Resources and Deferred Inflows of Resources*

For the Year Ended June 30, 2015, Washington County – Johnson City Animal Control Center reported deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 23,990
Net Difference between Projected and Actual Earnings on Pension Plan Investments	37,978
Contributions Subsequent to the Measurement Date of June 30, 2014	<u>(20,867)</u>
 Total	 <u>\$ 41,101</u>

The amount shown above for “Contributions Subsequent to the Measurement Date of June 30, 2014” will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2016	\$ (14,293)
2017	(14,293)
2018	(14,293)
2019	(14,293)
2020	(4,798)
Thereafter	-

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
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June 30, 2015**

NOTE 7. GENERAL INFORMATION ABOUT THE PENSION PLAN (Continued)

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

**Payable to the Pension Plan**

At June 30, 2015, Washington County – Johnson City Animal Control Center reported a payable of \$1,578 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

NOTE 8. DEFERRED OUTFLOWS / INFLOWS OF RESOURCES

In addition to assets, the statement of net 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 future period(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The Center has no items qualifying for reporting in this category. See also NOTE 7 General Information about the TCRS Pension Plan.

In addition to liabilities, the statement of net 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 future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Center had two items qualifying for reporting in this category: pension changes in experience and pension changes in investment earnings. See also NOTE 7 General Information about the TCRS Pension Plan.

NOTE 9. BUILDINGS AND EQUIPMENT

Buildings and equipment are carried at cost, or in the case of contributed assets, at their 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 Center's policy is to capitalize assets costing \$1,500 or more with a life greater than one year. Buildings are depreciated over forty (40) years and building improvements over ten years. Equipment is depreciated over five or seven years. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized. Depreciation expense at June 30, 2015 amounted to \$12,329.

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
Notes to the Financial Statements  
June 30, 2015**

NOTE 9. BUILDINGS AND EQUIPMENT (Continued)

Property and equipment are comprised of the following:

	<u>Capital Assets, Not Depreciated</u>			<u>Capital Assets, Depreciated</u>		
	<u>Land</u>	<u>Construction In Progress</u>	<u>Equipment</u>	<u>Buildings and Improvements</u>	<u>Vehicles</u>	<u>Total</u>
Cost						
Balance, June 30, 2014	\$ 502,210	\$ 47,226	\$ 50,949	\$ 260,570	\$ 108,123	\$ 969,078
Increases	-	-	77,501	3,016,494	-	3,093,995
Decreases	-	(47,226)	(24,692)	(241,727)	(21,932)	(335,577)
Balance, June 30, 2015	<u>502,210</u>	<u>-</u>	<u>103,758</u>	<u>3,035,337</u>	<u>86,191</u>	<u>3,727,496</u>
Accumulated Depreciation						
Balance, June 30, 2014	-	-	49,962	182,058	105,124	337,144
Increases	-	-	1,751	8,157	2,421	12,329
Decreases	-	-	(24,691)	(168,179)	(21,932)	(214,802)
Balance, June 30, 2015	<u>-</u>	<u>-</u>	<u>27,022</u>	<u>22,036</u>	<u>85,613</u>	<u>134,671</u>
Capital Assets, Net	<u>\$ 502,210</u>	<u>\$ -</u>	<u>\$ 76,736</u>	<u>\$ 3,013,301</u>	<u>\$ 578</u>	<u>\$ 3,592,825</u>

NOTE 10. DEPOSITS AND INVESTMENTS

Deposits and investments at June 30, 2015 are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Unrestricted:			
Deposits at Financial Institutions	\$ 83,357	\$ 83,357	\$ 83,357
Broker Cash and Institutional Funds	-	-	-
Total Unrestricted	<u>83,357</u>	<u>83,357</u>	<u>83,357</u>
Restricted:			
Deposits at Financial Institutions	95,222	95,222	95,222
Broker Cash and Institutional Funds	-	-	-
Total Restricted	<u>95,222</u>	<u>95,222</u>	<u>95,222</u>
	<u>\$ 178,579</u>	<u>\$ 178,579</u>	<u>\$ 178,579</u>

Investment income for the year ended June 30, 2015, which is classified as nonoperating income in the statement of revenues, expenses and changes in net position, consisted of \$520 interest on cash and certificates of deposit.

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
Notes to the Financial Statements  
June 30, 2015**

NOTE 10. DEPOSITS AND INVESTMENTS (Continued)

Authorized investments include:

1. Investment firms for institutions, bonds, notes or treasury bills of the United States; nonconvertible debt securities of the following issuers, provided such securities are rated in the highest category by at least two nationally recognized rating services: the federal business loan bank; the federal national mortgage association; the federal farm credit bank;
2. any other obligations not listed above which are guaranteed as to principal and interest by the United States or any of its agencies;
3. certificates of deposit and other evidences of deposit at state and federally chartered banks and savings and loan associations. Notwithstanding any other public or private act to the contrary, all investments made pursuant to this subdivision shall be secured by collateral in the same manner and under the same conditions as state deposits under title 9, chapter 4, parts 1 and 4, or as provided in a collateral pool created under title 9, chapter 4, part 5;
4. obligations of the United States or its agencies under a repurchase agreement for a shorter time than the maturity date of the security itself if the market value of the security itself is more than the amount of funds invested only; provided that the Center's Board may invest in repurchase agreements only if the state director of local finance approves repurchase agreements as an authorized invest, and if such investments are made in accordance with procedures established by the state funding board;
5. the local government investment pool created by title 9, chapter 4, part 7.

Custodial Credit Risk

The Center maintains deposit accounts at one commercial bank and at a credit union in Johnson City, Tennessee. The deposit accounts at the commercial bank are insured through the FDIC up to \$250,000. The deposit accounts at the credit union are insured through NCUA up to \$250,000. The Center had no uninsured deposits as of June 30, 2015.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Center had no interest rate risk for its investments at June 30, 2015.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparts to an investment in debt securities will not fulfill its obligation. The Center had no credit risk for its investments at June 30, 2015.

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
Notes to the Financial Statements  
June 30, 2015**

NOTE 10. DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an organization's investment in a single issuer. The Center had no concentration of credit risk for its investments at June 30, 2015.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value, as a result of changes in foreign currency exchange rates. The Center had no foreign currency risk for its investments at June 30, 2015.

NOTE 11. ECONOMIC DEPENDENCE

The Center receives the majority of its revenue from Johnson City and Washington County, Tennessee and must comply with the requirements of these funding source entities.

NOTE 12. RELATED PARTY TRANSACTIONS

The husband of one of the Center's employees performed electrical maintenance services totaling \$235 for the Center for the fiscal year ended June 30, 2015.

NOTE 13. LONG-TERM DEBT

On June 30, 2014, the Center closed on a \$1,500,000 loan with Eastman Credit Union for the purpose of constructing a new facility. The terms include 13 monthly consecutive interest payments, beginning July 1, 2014, with interest calculated on the unpaid principal balances using an interest rate of 4% per annum; 180 monthly consecutive principal and interest payments in the amount of \$9,089.71 each, beginning August 1, 2015, with interest calculated on the unpaid principal balances using an interest rate of 4% per annum based on a year of 360 days; 59 monthly consecutive principal and interest payments in the initial amount of \$9,117.55 each, beginning August 1, 2030, with interest calculated on the unpaid balances using an interest rate based on the weekly average yield on United States securities adjusted to a constant maturity of five years, as made available by the Federal Reserve Board. The minimum interest rate on this note will be 4% per annum and the maximum will be 7% per annum. The balance on the construction note as of June 30, 2015 was \$1,416,929 and interest expense for the year was \$17,478, which was capitalized as part of the new building.

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
Notes to the Financial Statements  
June 30, 2015**

**NOTE 14. CAPITAL CAMPAIGN**

Unconditional promises to give are recorded as receivables and revenue when received. Pledges are recorded after being discounted to the anticipated net present value of the future cash flows.

Pledges receivable at June 30, 2015, representing amounts pledged toward the building of the new facility, consisted of:

Receivable in less than one year	\$	38,927
Receivable in one to five years		15,729
		54,656
Total unconditional promises to give		54,656
Less discounts to net present value		(749)
Less allowance for uncollectible promises		(5,466)
		(5,466)
Net unconditional promises to give	\$	48,441

The discount rate used on long-term pledges to give was five percent.

The Center has estimated and recorded a ten percent allowance for uncollectible pledges as is reflected in net pledges receivable on the Statement of Net Position.

**NOTE 15. CHANGE IN ACCOUNTING PRINCIPLE**

During the fiscal year ended June 30, 2015, the Center implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*, which became effective for fiscal years beginning after June 15, 2014, and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which amended GASB Statement No. 68 and is required to be applied simultaneously with the provision of GASB Statement No. 68.

As a result of the implementation of GASB Statements No. 68 and No. 71, the Center restated the beginning net position in the statement of net position, effectively decreasing net position as of June 30, 2014 by \$27,933. The Statements also resulted in the recording of net pension asset of \$29,144 and deferred inflows of resources: \$3,123 in pension changes in experience and \$37,978 in pension changes in investment earnings, as reflected on the statement of net position. These Statements also resulted in the recording of \$4,891 in pension expense as reflected on the statement of revenues, expenses and changes in net position, as part of employee benefits.

**NOTE 16. NET ASSETS**

At June 30, 2015, the Center reported a deficiency in unrestricted net position of \$119,343. This deficiency results, in part, from the implementation of GASB Statements No. 68 and No. 71, (\$27,933), loss on disposal of fixed assets (\$73,048), and reduced unrestricted public donations (\$43,221) due to greater emphasis on capital campaign to fund the new facility. Management does not believe this to be a going concern matter at this time.

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
Notes to the Financial Statements  
June 30, 2015**

**NOTE 17. SUBSEQUENT EVENTS**

On July 29, 2015, the Center's construction mortgage with Eastman Credit Union was converted to a permanent loan, with the disbursement of \$1,500,000 to pay off the construction loan. See Note 13 for terms of the long-term debt.

On August 10, 2015, the board voted to terminate the lease agreement with the City of Johnson City for land where the former Animal Control building is located. See Note 2 for details of this lease.

In connection with the preparation of the financial statements, management has evaluated events subsequent to June 30, 2015 through December 15, 2015, which is the date the financial statements were available to be issued, and concluded that no additional disclosures are required.

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
Schedule of Changes in Net Pension Liability (Asset)  
And Related Ratios Based on Participation in the  
Public Employee Pension Plan of TCRS  
Last Fiscal Year Ending June 30**

	2014
<b>Total Pension Liability</b>	
Service cost	\$ 14,996
Interest	43,172
Changes in benefit terms	-
Differences between actual & expected experience	(28,788)
Change of assumption	-
Benefit payments, including refunds of employee contributions	(10,601)
<b>Net change in total pension liability</b>	18,779
<b>Total pension liability-beginning</b>	565,923
<b>Total pension liability-ending (a)</b>	\$ 584,702
 <b>Plan Fiduciary Net Position</b>	
Contributions-employer	\$ 19,239
Contributions-employee	-
Net investment income	86,694
Benefit payments, including refunds of employee contributions	(10,601)
Administrative expense	(237)
<b>Net change in plan fiduciary net position</b>	95,095
<b>Plan fiduciary net position-beginning</b>	518,751
<b>Plan fiduciary net position-ending (b)</b>	\$ 613,846
 <b>Net Pension Liability (asset)-ending (a)-(b)</b>	\$ (29,144)
 <b>Plan fiduciary net position as a percentage of total pension liability</b>	104.98%
 <b>Covered-employee payroll</b>	\$ 160,194
 <b>Net pension liability (asset) as a percentage of covered-employee payroll</b>	18.19%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

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

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
Schedule of Contributions Based on Participation  
In the Public Employee Pension Plan of TCRS  
Last Fiscal Year Ended June 30**

	<u>2014</u>	<u>2015</u>
Actuarially determined contribution	\$ 19,239	\$ 20,867
Contribution in relation to the actuarially determined contribution	<u>19,239</u>	<u>19,289</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ 1,578</u>
Covered-employee payroll	\$ 160,194	\$ 174,615
Contributions as a percentage covered-employee payroll	12.01%	11.95%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**Notes to Schedule**

*Valuation date:* Actuarially determined contribution rates for 2015 were calculated based on the July 1, 2013 actuarial valuation.

*Methods and assumptions used to determine contribution rates:*

Actuarial cost method	Frozen initial liability
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	6 years
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of Living Adjustments	2.5 percent

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

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

**SUPPLEMENTAL SECTION**

**June 30, 2015**

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
Schedule of Functional Expenses  
For the Fiscal Year Ended June 30, 2015**

	<u>Supporting Services</u>			<u>Total</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
Accounting and Auditing	\$ -	\$ 6,975	\$ -	\$ 6,975
Maintenance - Structures and Equipment	6,587	1,446	-	8,033
Depreciation	11,466	863	-	12,329
Employee Benefits	30,608	5,401	-	36,009
Insurance	9,072	1,992	-	11,064
Office Expense	-	12,856	-	12,856
Supplies	49,483	5,498	-	54,981
Other Operating Expenses	16,126	-	-	16,126
Payroll Taxes	19,534	3,448	-	22,982
Salaries	255,712	45,126	-	300,838
Utilities	20,971	4,603	-	25,574
Vehicle and Travel	25,127	-	-	25,127
Property Tax	-	8,757	-	8,757
	<u>\$ 444,686</u>	<u>\$ 96,965</u>	<u>\$ -</u>	<u>\$ 541,651</u>

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



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Washington County – Johnson City Animal Control Center, Inc. (a Tennessee nonprofit organization), which comprise the statement of net position as of June 30, 2015 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 15, 2015.

***Internal Control Over Financial Reporting***

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

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.

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: 2015-001 and 2015-002.

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.

#### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether Washington County – Johnson City Animal Control Center, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2015-002.

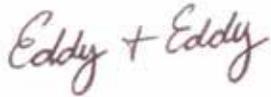
We noted certain other matters that we reported to management of Washington County – Johnson City Animal Control Center, Inc. in a separate letter dated December 15, 2015.

#### ***Washington County – Johnson City Animal Control Center, Inc.'s Response to Findings***

Washington County – Johnson City Animal Control Center, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Washington County – Johnson City 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.

***Purpose of This Report***

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

A handwritten signature in cursive script that reads "Eddy + Eddy".

Eddy & Eddy, CPAs, P.C.  
Johnson City, Tennessee  
December 15, 2015

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
Schedule of Findings and Responses  
For the Fiscal Year Ended June 30, 2015**

**Finding 2015-001:**

Criteria: Financial statements should not be materially misstated. The auditors considered materiality to be \$38,000.

Condition: Before auditor proposed adjustments were made, the financial statements were materially misstated.

Effect of condition: Total assets were understated \$2,956,903; total liabilities were understated \$186,752; total expenses were overstated \$2,779,602; the change in net position was understated \$2,770,151; and working capital was overstated \$195,350.

Cause of condition: Major causes of misstatement were that new capital assets were recorded as expenses and not capitalized and asset dispositions were not recorded; pledges receivable were not adjusted from prior year balances; in-kind building donations were not recorded; prior year accounts payable was not reversed and current year accounts payable was not recorded.

Recommendation: We recommend capital assets meeting the Center's capitalization policy be capitalized and any asset dispositions be recorded by year-end; all pledges receivable be recorded accurately and adjustments made by year-end; in-kind donations be recorded; and that all accruals be adjusted by year-end.

Views of Responsible Officials: Steps will be taken to make all adjustments by year-end in the future.

**Finding 2015-002:**

Criteria: Organizations should not have negative net position.

Condition: The Center had a deficit balance in unrestricted net position in the amount of \$119,343.

Effect of condition: If the negative trend in net position continues, the Center could have a going concern issue in the future.

Cause of condition: The implementation of GASB 68 and 71 resulted in a \$27,933 reduction to net position; loss on disposal of fixed assets resulted in a \$73,048 reduction to net position; and public donations were down approximately \$43,221 due to the emphasis on the capital campaign.

Recommendation: We recommend the Board monitor this situation and take action to ensure expenses do not exceed revenues.

Views of Responsible Officials: The Board will take steps to monitor expenses and revenues.

**WASHINGTON COUNTY – JOHNSON CITY  
ANIMAL CONTROL CENTER, INC.  
Schedule of Prior Year Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2015**

Financial Statement Findings

<b><u>Finding Number</u></b>	<b><u>Finding Title</u></b>	<b><u>Status</u></b>
	There were no prior findings reported.	

Federal Award Findings and Questioned Costs

<b><u>Finding Number</u></b>	<b><u>Finding Title</u></b>	<b><u>Status</u></b>
	There were no prior findings reported.	