

**HART for Animals, Inc.**

**Financial Report**

**December 31, 2013**

**TURNBULL, HOOVER & KAHL, P.A.**  
*CERTIFIED PUBLIC ACCOUNTANTS*

HART for Animals, Inc.  
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To the Board of Trustees of  
HART for Animals Inc.  
McHenry, Maryland 21541

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of HART for Animals Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

### ***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. Because of the matter described in the Basis for Disclaimer of Opinion paragraph; however, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the results of operations and cash flows or the consistency of application of accounting principles with the preceding year.

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 on the statement of financial position.

### ***Basis for Disclaimer of Opinion on the Results of Operations, Cash Flows, and Consistency***

Because we were not engaged as auditors until after December 31, 2013, we were not present to observe the physical inventory taken at that date, and we have not obtained sufficient appropriate audit evidence by other auditing procedures about inventory quantities. Also, in accordance with the terms of our engagement, we have not applied audit procedures necessary to obtain sufficient appropriate audit evidence about the classifications and

amounts comprising the balance sheet at December 31, 2012. The amount of inventory at December 31, 2012, and other significant aspects of the balance sheet at that date, including classifications and amounts, materially affect the determination of the results of operations and cash flows for the year ended December 31, 2013, and the consistency of application of accounting principles between 2013 and 2012.

***Disclaimer of Opinion on Results of Operations, Cash Flows, and Consistency***

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the results of operations and cash flows for the year ended December 31, 2013, or on the consistency of application of accounting principles with the preceding year. Accordingly, we do not express an opinion on the results of operations and cash flows for the year ended December 31, 2013, or on the consistency of application of accounting principles with the preceding year.

***Opinion on the Statement of Financial Position***

In our opinion, the statement of financial position referred to in the first paragraph presents fairly, in all material respects, the financial position of HART for Animals, Inc. as of December 31, 2013, in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2014, on our consideration of HART for Animals, 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 HART for Animals, Inc.'s internal control over financial reporting and compliance.

*Tumbull, Hoover & Kahly P.A.*

Oakland, Maryland  
September 25, 2014

**HART for Animals, Inc.**  
**Statement of Financial Position**  
**December 31, 2013**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 57,233
Inventory, at cost	18,145
Accounts receivable	4,202
<b>Total Current Assets</b>	<b>79,580</b>

**FIXED ASSETS**

Furniture and equipment	55,601
Improvements	34,667
Less: Accumulated Depreciation	(20,670)
<b>Total Fixed Assets</b>	<b>69,598</b>

**OTHER ASSETS**

Construction in progress	1,728,447
<b>Total Other Assets</b>	<b>1,728,447</b>

<b>TOTAL ASSETS</b>	<b>\$ 1,877,625</b>
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**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	\$ 2,738
Due to officer	7,968
Payroll liabilities	589
Accrued payroll	14,116
Sales tax payable	12,943
Contractor retainage	79,995
<b>Total Current Liabilities</b>	<b>118,349</b>

**LONG TERM LIABILITIES**

USDA loan	1,167,222
<b>Total Long Term Liabilities</b>	<b>1,167,222</b>

**NET ASSETS**

Unrestricted	592,054
Temporarily restricted	-
<b>TOTAL NET ASSETS</b>	<b>592,054</b>

<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,877,625</b>
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The Accompanying Notes to Financial Statements are an integral part of this statement

**HART for Animals, Inc.**  
**Statement of Activities**  
**For the Year Ended December 31, 2013**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>SUPPORT AND REVENUE</b>			
Contributions	\$ 121,421	\$ -	\$ 121,421
Direct public grants	9,566	5,000	14,566
Investment income	8,215	-	8,215
Bredel center income	151,751	-	151,751
Special events	101,031	-	101,031
<b>TOTAL REVENUE</b>	<b>391,984</b>	<b>5,000</b>	<b>396,984</b>
(Increase in Net Assets)			
Net assets released from restrictions satisfied by payments	5,000	(5,000)	-
<b>Total Revenue and Support</b>	<b>396,984</b>	<b>-</b>	<b>396,984</b>
<b>EXPENSES</b>			
<b>Program Service Expenses</b>			
Salaries and wages	142,955	-	142,955
Supplies	36,727	-	36,727
Insurance	27,618	-	27,618
Payroll expenses	22,128	-	22,128
Sales tax expense	12,945	-	12,945
Rent	10,238	-	10,238
Postage & delivery	8,336	-	8,336
Contract services	8,004	-	8,004
Rescue program expenses	7,489	-	7,489
Depreciation expense	6,695	-	6,695
Event expenses	4,320	-	4,320
Advertising	3,782	-	3,782
Repairs & maintenance	3,274	-	3,274
Automobile expense	3,225	-	3,225
Telephone and internet	2,865	-	2,865
Utilities	2,262	-	2,262
Office expense	2,453	-	2,453
Licenses and permits	1,271	-	1,271
Service charges	965	-	965
Interest expense	76	-	76
Bad debt	70	-	70
<b>Total Program Service Expenses</b>	<b>307,698</b>	<b>-</b>	<b>307,698</b>
<b>Management &amp; General Expenses</b>			
Salaries and wages	69,697	-	69,697
Thrift shop expenses	6,117	-	6,117
Membership and subscriptions	1,164	-	1,164
Miscellaneous	1,131	-	1,131
Staff development	826	-	826
Legal & professional	2,909	-	2,909
<b>Total Management &amp; General Expenses</b>	<b>81,844</b>	<b>-</b>	<b>81,844</b>
<b>TOTAL EXPENSES</b>	<b>389,542</b>	<b>-</b>	<b>389,542</b>
(Decrease in Net Assets)			
<b>CHANGE IN NET ASSETS</b>	7,442	-	7,442
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>584,612</b>	<b>-</b>	<b>584,612</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 592,054</b>	<b>\$ -</b>	<b>\$ 592,054</b>

The Accompanying Notes to Financial Statements are an integral part of this statement

**HART For Animals, Inc**  
**Statement of Cash Flows**  
**For the year ended December 31, 2013**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Increase in net assets	\$ 7,442
Adjustments to reconcile increases in net assets to net cash provided by (used in) operating activities	
Depreciation expense	6,695
Decrease in other assets	2,675
Decrease in accounts receivable	2,559
Decrease in accounts payable	(3,570)
Decrease in payroll taxes payable	(955)
Increase in accrued wages	14,116
Increase in sales tax payable	12,737
Increase in due to officers	7,968
Increase in retainage payable	79,995
Increase in inventory	(8,351)
<i>Net cash provided by operating activities</i>	<u>121,311</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from sale of investments	26,891
Cost of construction in progress	(1,280,412)
Purchase of machinery and equipment	(13,083)
<i>Net cash used in investing activities</i>	<u>(1,266,604)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Proceeds from new loan	<u>1,167,222</u>
<i>Net cash provided by financing activities</i>	<u>1,167,222</u>

**NET CHANGE IN CASH AND CASH EQUIVALENTS** 21,929

**CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** 35,304

**CASH AND CASH EQUIVALENTS, END OF YEAR** \$ 57,233

HART for Animals, Inc.  
Notes to Financial Statements  
December 31, 2013

Note 1: Summary of Operating Entity and Significant Accounting Policies

Nature of Activities

HART for Animals, Inc. purpose is to serve the public interest by reducing the number of homeless or unwanted companion animals in Garrett County; to help guard public health by establishing a program for vaccinating, neutering and spaying incoming animals to reduce the spread of communicable and reportable diseases, i.e., rabies, parvo virus, feline leukemia, and others; to raise funds to build and operate a facility to temporarily or permanently house rescued and relinquished companion animals; to create an endowment fund to sustain the operation of the facility into the future; to create educational opportunities that will serve the needs of Garrett County residents; to recruit volunteers that will assist the Corporation in achieving its purpose; to provide community education pertaining to animal care and welfare; and to assist the county's animal control efforts by supporting those actions that may fall within the stated purpose of the organization.

Financial Statement Presentation

HART reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. The determination of net asset class is established by the existence or absence of legally enforceable restrictions from outside of HART and its board of directors. If no outside restrictions exist, then all net assets are recorded as unrestricted.

HART's net assets have been grouped into the following three classes:

- **Unrestricted Net Assets** - includes those net assets whose use is not restricted by the provider even though their use may be limited in other respects.
- **Temporarily Restricted Net Assets** - represents resources that may be utilized only in accordance with the restricted purposes established by the provider of such funds.
- **Permanently Restricted Net Assets** - represents resources for which the principal is to be maintained intact and the income may only be spent in accordance with the intent of the donor / provider.

Basis of Accounting

The HART for Animals, Inc. prepares its financial statements on the accrual basis of accounting, in accordance with generally accepted accounting principles. Therefore, revenues are recognized when earned rather than when received, and expenses are recognized when the obligation is incurred rather than when cash is disbursed.

HART for Animals, Inc.  
Notes to Financial Statements  
December 31, 2013

Basis of Accounting - continued

Support is recognized when contributions are received. All contributions are considered available for unrestricted use unless specifically restricted by the donor or subject to other legal restrictions.

Revenues are recorded when earned rather than when received. Therefore, related accounts receivables represent revenues earned but not yet received. Related deferred revenue represents grants received but not yet earned as of December 31, 2013.

Cash and Cash Equivalents

For purposes of the statement of cash flows, HART considers all highly liquid assets (including restricted assets, if any) with maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable and Bad Debts Expense

HART reports accounts receivable net of an allowance for doubtful accounts. Under the allowance method of handling bad debts, an estimate of the total uncollectible accounts is calculated and periodically evaluated. HART did not record any bad debt expense for the year ended December 31, 2013.

Receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Property and Equipment

HART follows the practice of capitalizing all expenditures for equipment and improvements in excess of \$500. Maintenance and repairs are charged to expenses as incurred.

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets that range from three to ten years for autos and equipment, and thirty years for buildings. Leasehold improvements are amortized over the remaining life of the lease.

When fixed assets are retired or otherwise disposed of, the cost is removed from the asset account and the related depreciation is adjusted with the difference being charged to income as either a gain or loss.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted in writing the donated asset to a specific purpose.

HART for Animals, Inc.  
Notes to Financial Statements  
December 31, 2013

Estimates

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

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions.

Functional Expenses

HART allocates its expenses on a functional basis among the various programs. Expenses that can be identified with a specific program are allocated directly according to their natural expenditure classification. Other expenses that are common to many programs are allocated by various statistical methods.

Income Tax Status

HART is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and did not conduct unrelated business activities. Therefore, the Board has not made any provisions for federal income taxes in the accompanying financial statements. Additionally, HART for Animals, Inc. has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of section 509(a) of the Internal Revenue Code.

HART adopted the provisions of FASB ASC 740-10-25 (formerly FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ["FIN 48"]) on July 1, 2009. Under FIN 48, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not the position will be sustained. The implementation of FIN 48 had no impact on HART's financial statements. HART does not believe there are any material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax liabilities. No interest or penalties were accrued as of July 1, 2010, as a result of the adoption of FIN 48. For the year ended December 31, 2013, there were no interest or penalties recorded or included in its consolidated financial statements.

HART's Federal Exempt Organization Business Income Tax Returns (Form 990) for 2011, 2012, and 2013 are subject to examination by the IRS, generally for three years after they were filed.

Inventories

Inventories, which consist primarily of medical supplies, are valued at the lower of cost or market. Cost is determined on the first-in, first-out method. Donated items are recorded at estimated fair value at the date of donation.

HART for Animals, Inc.  
Notes to Financial Statements  
December 31, 2013

Note 2: Deposits with Financial Institutions

At December 31, 2013, the carrying amount of deposits was \$57,233 and the bank balance was \$92,529.

HART's bank balance was either covered by Federal Deposit Insurance Corporation (FDIC) or was covered by collateral.

Note 3: Accounts Receivable

Accounts receivable at December 31, 2013 is comprised of the following:

HART Center Receivable	\$	2,000
Bredel Center Receivable		<u>2,202</u>
	\$	<u>4,202</u>

Note 4: Property, Plant, and Equipment

A Summary of property and equipment is as follows:

	Cost	Accumulated Depreciation
Leasehold Improvements	\$ 34,667	\$ 5,150
Furniture and Fixtures	<u>55,601</u>	<u>15,520</u>
TOTAL	<u>\$ 90,268</u>	<u>\$ 20,670</u>

Construction in Progress totaled \$1,728,447 which consisted of the construction of the new facility.

Note 5: Long-Term Debt

HART's long-term debt consists of the following:

United States Department of Agriculture loan dated August 12, 2013 due in monthly installments of \$7,417 through August 2043 at 3.50% interest.	<u>\$ 1,167,222</u>
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Building and loan were under construction in 2013.

Note 6: Contributed Services

HART for Animals, Inc. receives a significant amount of donated services from unpaid volunteers assisting HART in its various programs. The value of this contributed time is not reflected in the accompanying financial statements because it does not meet the criteria for recognition under generally accepted accounting standards.

HART for Animals, Inc.  
Notes to Financial Statements  
December 31, 2013

Note 7: Related Parties

The Corporation is indebted to an officer of HART for Animals, Inc. As of December 31, 2013, the net Due to Officer totaled \$7,968.

Note 8: Risk Management

Significant losses are covered by commercial insurance for all major programs. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current or three prior years.

HART has not recorded an estimated liability for costs incurred in excess of insurance coverage or torts, and other claims against HART. Based on historical experience, HART expects any such costs to be immaterial.

Note 9: Compensated Absences

Employees of the Organization are entitled to paid vacation, paid sick days, and personal days off, depending on job classification, length of service, and other factors. It is impracticable to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. The Organization's policy is to recognize the costs of compensated absences when actually paid to employees.

Note 10: Evaluation of Subsequent Events

HART has evaluated, for possible financial statement disclosure, subsequent events through September 25, 2014, the date which the financial statements were available to be issued, and have determined there were no such events.

**HART FOR ANIMALS, INC.**

**SINGLE AUDIT**

**DECEMBER 31, 2013**

David W. Turnbull, CPA  
Richard J. Hoover, CPA  
Bernard B. Kahl, CPA



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**Independent Auditors' 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  
HART for Animals, Inc.

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 HART for Animals, Inc. (a non-profit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 25, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered HART for Animals, 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 HART for Animals, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 questioned costs, 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 questioned costs to be material weaknesses. (13-1 and 13-2)

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 HART for Animals, Inc.'s financial statements are free of 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*.

### **HART for Animals, Inc.'s Response to Findings**

HART for Animals, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. HART for Animals, 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.

*Jumbully Hoover & Karly P.A.*

Oakland, Maryland  
September 25, 2014

David W. Turnbull, CPA  
Richard J. Hoover, CPA  
Bernard B. Kahl, CPA



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**Independent Auditors' Report  
On Compliance For Each Major Program  
And On Internal Control Over Compliance  
Required By OMB Circular A-133**

To the Board of Directors of  
HART for Animals, Inc.

**Report on Compliance for Each Major Federal Program**

We have audited HART for Animals, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of HART for Animals, Inc.'s major federal programs for the year ended December 31, 2013. HART for Animals, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of HART for Animals, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about HART for Animals, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of HART for Animals, Inc.'s compliance.

### **Opinion on Each Major Federal Program**

In our opinion, HART for Animals, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

### **Report on Internal Control Over Compliance**

Management of HART for Animals, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered HART for Animals, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of HART for Animals, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Tumbully Hoover & Kahl P.A.*

Oakland, Maryland  
September 25, 2014

**HART FOR ANIMALS, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Federal Revenue	Federal Expenditures	Pass-Through To Subrecipients
<b>Department of Agriculture and Rural Development</b>				
Community Facilities - Loan 97-04	10.766	\$ 1,167,222	\$ 1,167,222	0
<b>Total Department of Agriculture and Rural Development</b>			<u>1,167,222</u>	<u>0</u>
 <b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			 <u>\$ 1,167,222</u>	 <u>\$ -</u>

**HART FOR ANIMALS, INC.**  
**NOTES TO SCHEDULE OF**  
**EXPENDITURES OF FEDERAL AWARDS**  
**DECEMBER 31, 2013**

**Note 1.** Summary of Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes all federal grants of HART for Animals, Inc. and is prepared utilizing the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the financial statements.

**Note 2.** Oversight Agency

The United States Department of Agriculture and Rural Development has been designated oversight audit agency for the HART for Animals, Inc.

**HART FOR ANIMALS, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2013**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unmodified opinion on the statement of financial position of HART for Animals, Inc. and a disclaimer of opinion on the statement of activities and cash flows.
2. Two material weaknesses relating to the audit of the financial statements of the Organization are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and On Compliance and Other Matters.
3. No instances of noncompliance material to the financial statements of HART for Animals, Inc, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance for each Major Program and Internal Control over Compliance Required by OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the Organization expresses an unmodified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a major program included:

Community Facilities-Loan 97-04	10.766
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8. The threshold for distinguishing Types A and B programs was \$300,000.
9. HART for Animals, Inc. was determined to be a high risk auditee.

**HART FOR ANIMALS, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2013**

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

**Material Weaknesses:**

13-1 Material Adjusting Journal Entries

*Condition & Criteria:* Material adjusting journal entries were discovered, proposed, and recorded during the course of the financial audit of HART for Animals, Inc. None of those adjustments affected federal programs.

*Effect:* Upon the commencement of the independent audit, HART for Animals, Inc.'s original books of account were materially misstated.

*Recommendation:* The auditor recommends that management design additional controls over the preparation of the financial statements to prevent or detect material misstatements.

*Grantee Response:* The HART for Animals, Inc.'s finance office will strengthen its review processes throughout the year regarding financial transactions and account balances. These review processes will include enhanced controls over both the preparation of the final books of account and related annual financial statements.

13-2 Recording of Payroll

*Condition & Criteria:* HART for Animals, Inc. wrote several manual payroll checks. These checks did not get reported to the payroll processor or reported on the employees' W-2's.

*Effect:* Upon the commencement of the independent audit, HART for Animals, Inc.'s originally filed W-2's were materially misstated.

*Recommendation:* The auditor recommends that management design additional controls and safeguards over the bi weekly payroll preparation processing and that management amend their payroll tax reporting.

*Grantee Response:* The HART for Animals, Inc.'s finance office will strengthen its review process over the payroll reporting processes.

**HART FOR ANIMALS, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2013**

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS  
AUDIT**

None

**HART FOR ANIMALS, INC.**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**YEAR ENDED DECEMBER 31, 2012**

**A – Findings Financial Statement Audit**

None

**B - Finding and Questioned Costs – Major Federal Awards Program Audit**

None