

HART for Animals, Inc.

Financial Report

December 31, 2014

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, 2014, 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.

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 HART for Animals, Inc. as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended 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 August 28, 2015, on our consideration of Hart for Animal, 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 Animal's internal control over financial reporting and compliance.

Turnbull Hoover & Kahl, P.A.

Oakland, Maryland

August 28, 2015

HART for Animals, Inc.
Statement of Financial Position
December 31, 2014

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 71,316
Investments	7,726
Inventory, at cost	33,991
Accounts receivable	1,811
Pledges receivable, current portion	100,000
Total Current Assets	<u>214,844</u>

FIXED ASSETS

Furniture and equipment	273,941
Improvements	35,562
Buildings	1,961,409
Land	325,784
Vehicles	4,794
Less: Accumulated Depreciation	(79,498)
Total Fixed Assets	<u>2,521,992</u>

OTHER ASSETS

Pledges receivable, long term portion	100,000
Construction in progress	11,051
Total Other Assets	<u>111,051</u>

TOTAL ASSETS \$ 2,847,887

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 61,457
Credit cards payable	33,272
Payroll liabilities	2,586
Accrued payroll	34,850
Sales tax payable	683
Due to officers current portion	37,901
Current portion of loans payable	52,269
Total Current Liabilities	<u>223,017</u>

LONG TERM LIABILITIES

Due to officers, less current portion	147,599
Loans payable, less current portion	1,700,801
Total Long Term Liabilities	<u>1,848,400</u>

NET ASSETS

Unrestricted	776,470
Temporarily restricted	-
TOTAL NET ASSETS	<u>776,470</u>

TOTAL LIABILITIES AND NET ASSETS \$ 2,847,887

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, 2014

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Contributions	\$ 591,740	\$ -	\$ 591,740
Direct public grants	16,304	10,000	26,304
Government grants	45,725	22,923	68,648
Investment income	111	-	111
Special events	50,647	-	50,647
Bredel Center income	265,712	-	265,712
Bed 'n Bark Inn income	81,120	-	81,120
Muttworks income	37,452	-	37,452
HART Shoppe income	2,053	-	2,053
Pick of the Litter income	26,812	-	26,812
TOTAL REVENUE	1,117,676	32,923	1,150,599
(Increase in Net Assets)			
Net assets released from restrictions satisfied by payments	32,923	(32,923)	-
Total Revenue and Support	1,150,599	-	1,150,599
EXPENSES			
Program Service Expenses			
Salaries and wages	454,566	-	454,566
Supplies	65,328	-	65,328
Interest expense	65,029	-	65,029
Depreciation expense	59,089	-	59,089
Payroll expenses	33,119	-	33,119
Insurance	25,621	-	25,621
Advertising	22,248	-	22,248
Repairs & maintenance	20,523	-	20,523
Utilities	10,877	-	10,877
Office expense	10,606	-	10,606
Automobile expense	9,454	-	9,454
Laboratory fees	9,451	-	9,451
Workers Compensation	7,773	-	7,773
Service charges	7,391	-	7,391
Telephone and internet	7,330	-	7,330
Event expenses	5,143	-	5,143
Printing & copying lease expense	3,088	-	3,088
Benefit plan	2,949	-	2,949
Uniforms	2,000	-	2,000
Postage & delivery	1,873	-	1,873
Licenses and permits	1,450	-	1,450
Rent	1,200	-	1,200
Recruitment	608	-	608
Loss on disposal of assets	470	-	470
Travel	264	-	264
Total Program Service Expenses	827,450	-	827,450
Management & General Expenses			
Salaries and wages	109,057	-	109,057
Legal & professional	16,343	-	16,343
Miscellaneous	8,590	-	8,590
Staff development	3,130	-	3,130
Thrift shop expenses	1,178	-	1,178
Membership and subscriptions	435	-	435
Total Management & General Expenses	138,733	-	138,733
TOTAL EXPENSES	966,183	-	966,183
(Decrease in Net Assets)			
CHANGE IN NET ASSETS	184,416	-	184,416
NET ASSETS, BEGINNING OF YEAR	592,054	-	592,054
NET ASSETS, END OF YEAR	\$ 776,470	\$ -	\$ 776,470

HART for Animals, Inc.
Statement of Cash Flows
For the year ended December 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in net assets	\$ 184,416
Adjustments to reconcile increases in net assets to net cash provided by (used in) operating activities	
Depreciation expense	59,089
Decrease in accounts receivable	2,391
Decrease in sales tax payable	(12,260)
Increase in accounts payable	58,719
Increase in accrued wages	20,734
Increase in credit cards payable	33,272
Increase in inventory	(15,846)
Increase in payroll taxes payable	1,997
Increase in pledges receivable	(200,000)
<i>Net cash provided by operating activities</i>	<u>132,512</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Donation of common stock	(7,003)
Cost of construction in progress	(11,051)
Purchase of machinery and equipment	(783,760)
<i>Net cash used in investing activities</i>	<u>(801,814)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on debt	(25,062)
Proceeds from new loan	708,447
<i>Net cash provided by financing activities</i>	<u>683,385</u>

NET CHANGE IN CASH AND CASH EQUIVALENTS 14,083

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 57,233

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 71,316

SCHEDULE OF NONCASH INVESTING and FINANCING ACTIVITIES:

Notes payable incurred to purchase fixed assets \$ 530,915

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Interest paid \$ 65,029

HART for Animals, Inc.
Notes to Financial Statements
December 31, 2014

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, 2014

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, 2014.

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.

Investments

HART carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Investment income and realized investment gains and losses are included in changes in unrestricted, temporarily restricted and permanently restricted net assets based on relevant law and donor restrictions.

The Foundation's investment portfolio is administered under a revocable trust agreement by Edward Jones, Oakland, Maryland.

Comparative Data and Reclassifications

Comparative data for the prior year have been presented in certain sections of the accompanying financial statements in order to provide an understanding of changes in the Foundation's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

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, 2014.

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.

HART for Animals, Inc.
Notes to Financial Statements
December 31, 2014

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.

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.

Pledges

HART reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements.

HART for Animals, Inc.
Notes to Financial Statements
December 31, 2014

Advertising

The cost of advertising has been expensed as incurred. Advertising costs are incurred for both supporting services and program services.

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, 2014, 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 2012, 2013, and 2014 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.

Note 2: Deposits with Financial Institutions

At December 31, 2014, the carrying amount of deposits was \$71,316 and the bank balance was \$74,432.

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

HART for Animals, Inc.
Notes to Financial Statements
December 31, 2014

Note 3: Accounts Receivable

Accounts receivable at December 31, 2014 is comprised of the following:

HART Center Receivable	\$	1,000
Bredel Center Receivable		<u>811</u>
	\$	<u>1,811</u>

Note 4: Pledges Receivable

Pledges receivable represent amounts due to HART for legally enforceable pledges. These pledges are payable in full or in part through December 31, 2016.

Sources are as follows:

	<u>2014</u>
Long-term pledge	\$ <u>200,000</u>
Total	\$ <u>200,000</u>

Pledges receivable as of December 31, 2014 are unrestricted. These unconditional promises to give are scheduled to be received by HART over the next several years, and are considered to be fully collectible.

	<u>2014</u>
Receivable in less than one year	\$ 100,000
Receivable in one to five years, at present value	100,000
Receivable in six to ten years, at present value	<u>-</u>
Total pledges receivable	<u>\$ 200,000</u>

Note 5: Property, Plant, and Equipment

Property and equipment is accounted for at cost and the value at December 31, 2014, consists of the following:

Furniture & Equipment	\$	273,941
Improvements		35,562
Buildings		1,961,409
Land		325,784
Vehicles		<u>4,794</u>
		2,601,490
Less accumulated depreciation		<u>79,498</u>
Net property and equipment		<u>\$ 2,521,992</u>

Construction in Progress totaled \$11,051 which consisted of the second phase of the facility which will be for the adoption wing.

HART for Animals, Inc.
Notes to Financial Statements
December 31, 2014

Note 6: 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 \$7,420 through August 2043 at 3.50% interest.	\$ 1,613,700
Dutch's loan dated August 8, 2014 due in three installments through May 15, 2015 at 0% interest.	10,000
Linda Moebs loan dated May 1, 2014 due in monthly installments of \$500 through Sept 19, 2015 at 0% interest.	4,000
Garrett County Department of Public Utilities loan dated January 1, 2012 due in monthly installments of \$1,354 through January 1, 2027 at 1% interest.	62,370
United States Department of Agriculture loan dated December 31, 2014 due in monthly installments of \$283 through December 31, 2044 at 3.5% interest.	<u>63,000</u>
Total	<u>\$ 1,753,070</u>

The annual requirements to amortize the above debt outstanding at December 31, 2014 including interest in the amount of \$976,302 is as follows:

2015	\$ 110,851
2016	98,851
2017	97,851
2018	97,851
2019	97,851
Thereafter	<u>2,226,117</u>
Total:	<u>\$2,729,372</u>

Note 7: Related Parties

The Corporation is indebted to officers of HART for Animals, Inc. As of December 31, 2014, the net Due to Officer consists of the following:

Christopher Garosi loan dated September 24, 2014 due in monthly installments of \$2,526 through August 1, 2015 at 5% interest. No payments were made in 2014	\$10,000
Paula Yudelevit loan dated October 30, 2014 due in monthly installments of \$450 through September 1, 2016 at 3.5% interest.	7,000
Pellet loan dated December 31, 2014 due in monthly installments of \$4,319 through November 1, 2018 at 3.5% interest.	<u>168,500</u>
Total	<u>\$185,500</u>

HART for Animals, Inc.
Notes to Financial Statements
December 31, 2014

Note 7: Related Parties- continued

The annual requirements to amortize the above debt outstanding at December 31, 2014 including interest in the amount of \$13,433 is as follows:

2015	\$ 43,616
2016	55,982
2017	51,827
2018	<u>47,508</u>
Total:	<u>\$ 198,933</u>

Note 8: 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.

Note 9: 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 10: 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.

HART for Animals, Inc.
Notes to Financial Statements
December 31, 2014

Note 11: Investments

Investments as reflected in the accompanying financial statements as of December 31, 2014 consisted of the following:

	2014	
	Cost	FMV
Common Stock	\$ 7,907	\$ 7,726
TOTALS:	\$ 7,907	\$ 7,726

A summary of return on investments consists of the following for the year ended December 31, 2014:

	2014
Interest and dividends	\$ 88
Total Return	\$ 88

Note 12: Fair Value Measurements

Fair values of assets measured on a recurring basis at December 31, 2014 are as follows:

	Fair Value	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2014</u>				
Equity Securities:				
Telecommunications Sector	\$ 5,837	\$ 5,837	\$ -	\$ -
Retail Sector	1,889	1,889	-	-
Total Equity Securities	7,726	7,726	-	-
Total	\$ 7,726	\$ 7,726	\$ -	\$ -

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

- Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that HART has the ability to access.
- Level 2 inputs to the valuation methodology include the following:
 - Quoted prices for similar assets or liabilities in active markets
 - Quoted prices for identical or similar assets or liabilities in inactive markets
 - Inputs other than quoted prices that are observable for the asset or liability

HART for Animals, Inc.
Notes to Financial Statements
December 31, 2014

Note 12: Fair Value Measurements- continued

- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means
- If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

There have been no changes in the methodologies used at December 31, 2014.

Equity securities are valued at the closing price reported on the active market on which the individual securities are traded.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although HART believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 13: Evaluation of Subsequent Events

HART has evaluated, for possible financial statement disclosure, subsequent events through August 28, 2015, 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, 2014

David W. Turnbull, 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, 2014, 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 August 28, 2015.

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 deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. (14-1)

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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Turnbull, Hoover & Kahly P.A.

Oakland, Maryland
August 28, 2015



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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, 2014. 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, 2014.

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 & Karly P.A.

Oakland, Maryland
August 28, 2015

HART FOR ANIMALS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Federal Revenue	Federal Expenditures	Pass-Through To Subrecipients
Department of Agriculture and Rural Development				
Community Facilities - Loan 97-04	10.766	1,676,700	\$ 1,672,554	0
Community Facility Grant # 2	10.766	10,600	10,600	0
Community Facility Grant # 3	10.766	3,300	3,300	0
Community Facility Grant # 5	10.766	31,825	31,825	0
Total Department of Agriculture and Rural Development			<u>\$ 1,718,279</u>	<u>0</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,718,279</u>	<u>\$ -</u>

**HART FOR ANIMALS, INC.
NOTES TO SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2014**

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, 2014

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of HART for Animals, Inc.
2. One material weakness relating to the audit of the financial statements of the Organization is 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 programs tested as a major program included:

Community Facilities-Loan and Grants	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, 2014**

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

Material Weaknesses:

14-1 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 the 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.

**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, 2013

A – Findings Financial Statement 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.

Current Status: During the course of the FY 2014 audit we are still deeming this to be an issue. HART for Animals, Inc. still needs to correct this issue.

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.

Current Status: During the course of the FY 2014 audit we deemed this issue to have been corrected by HART for Animals, Inc. Hart for Animals, Inc. hired a payroll processing company to prepare its weekly payroll, quarterly payroll reports and year end payroll reports.

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

None