**HART for Animals, Inc.**

**Financial Report**

**December 31, 2016**

**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

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, 2016, 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. 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, 2016, 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.

Turnbull Hoover & Kahl P.A.

Oakland, Maryland

September 19, 2017

HART for Animals, Inc.
Statement of Financial Position
December 31, 2016

## ASSETS

| | |
|---|---|
| **CURRENT ASSETS** | |
| Cash and cash equivalents | $ 22,385 |
| Inventory, at cost | 22,168 |
| Accounts receivable | 3,743 |
| Pledges receivable, current portion | 5,000 |
| Prepaid expenses | 2,873 |
| **Total Current Assets** | 56,169 |
| **FIXED ASSETS** | |
| Furniture and equipment | 289,161 |
| Improvements | 35,562 |
| Buildings | 2,941,223 |
| Land | 325,784 |
| Vehicles | 3,165 |
| Less: Accumulated Depreciation | (262,454) |
| **Total Fixed Assets** | 3,332,441 |
| **OTHER ASSETS** | |
| Employee advances | 3,272 |
| **Total Other Assets** | 3,272 |
| **TOTAL ASSETS** | $ 3,391,882 |

## LIABILITIES AND NET ASSETS

| | |
|---|---|
| **CURRENT LIABILITIES** | |
| Accounts payable | $ 158,683 |
| Credit cards payable | 61,596 |
| Accrued payroll taxes | 4,410 |
| Accrued payroll | 49,577 |
| Sales tax payable | 255 |
| Line of credit | 20,000 |
| Due to officers current portion | 108,055 |
| Current portion of loans payable | 59,542 |
| **Total Current Liabilities** | 462,118 |
| **LONG TERM LIABILITIES** | |
| Accrued leave | 13,388 |
| Due to officers, less current portion | 337,092 |
| Loans payable, less current portion | 1,613,076 |
| **Total Long Term Liabilities** | 1,963,556 |
| **NET ASSETS** | |
| Unrestricted | 966,208 |
| **TOTAL NET ASSETS** | 966,208 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 3,391,882 |

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, 2016

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| **SUPPORT AND REVENUE** | | | |
| Government grants | $ 2,099 | $ 38,800 | $ 40,899 |
| Bredel Center income | 373,029 | | 373,029 |
| Contributions | 248,427 | | 248,427 |
| Bed 'n Bark Inn income | 208,747 | | 208,747 |
| Direct public grants | 26,950 | 15,000 | 41,950 |
| Special events | 106,361 | | 106,361 |
| Muttworks income | 57,801 | | 57,801 |
| Pick of the Litter income | 39,587 | | 39,587 |
| HART Shoppe income | 9,031 | | 9,031 |
| Investment income | 1,290 | | 1,290 |
| **TOTAL REVENUE** (Increase in Net Assets) | 1,073,322 | 53,800 | 1,127,122 |
| Net assets released from restrictions satisfied by payments | 53,800 | (53,800) | - |
| **Total Revenue and Support** | 1,127,122 | - | 1,127,122 |
| **EXPENSES** | | | |
| **Program Service Expenses** | | | |
| Salaries and wages | 482,873 | - | 482,873 |
| Supplies | 141,548 | - | 141,548 |
| Depreciation expense | 97,885 | - | 97,885 |
| Interest expense | 63,958 | - | 63,958 |
| Payroll expenses | 55,653 | - | 55,653 |
| Insurance | 39,934 | - | 39,934 |
| Utilities | 37,092 | - | 37,092 |
| Program expense | 33,274 | - | 33,274 |
| Repairs & maintenance | 24,147 | - | 24,147 |
| Advertising | 18,413 | - | 18,413 |
| Service charges | 15,041 | - | 15,041 |
| Laboratory fees | 14,128 | - | 14,128 |
| Workers compensation | 13,661 | - | 13,661 |
| Contract veterinarians | 11,090 | - | 11,090 |
| Property taxes | 10,844 | - | 10,844 |
| Postage & delivery | 3,596 | - | 3,596 |
| Printing & copying lease expense | 3,576 | - | 3,576 |
| Automobile expense | 3,561 | - | 3,561 |
| Investment losses | 3,435 | - | 3,435 |
| Office expense | 3,427 | - | 3,427 |
| Small furniture and equipment | 1,943 | - | 1,943 |
| Travel | 1,861 | - | 1,861 |
| Licenses and permits | 1,480 | - | 1,480 |
| Uniforms | 1,244 | - | 1,244 |
| Loss on disposal of assets | 570 | - | 570 |
| **Total Program Service Expenses** | 1,084,234 | - | 1,084,234 |
| **Management & General Expenses** | | | |
| Salaries and wages | 172,582 | - | 172,582 |
| Event expenses | 15,543 | - | 15,543 |
| Legal & professional | 11,755 | - | 11,755 |
| Staff development | 5,421 | - | 5,421 |
| Miscellaneous | 1,499 | - | 1,499 |
| Membership and subscriptions | 620 | - | 620 |
| **Total Management & General Expenses** | 207,420 | - | 207,420 |
| **TOTAL EXPENSES** (Decrease in Net Assets) | 1,291,654 | - | 1,291,654 |
| **CHANGE IN NET ASSETS** | (164,532) | - | (164,532) |
| **NET ASSETS, BEGINNING OF YEAR** | 1,130,740 | - | 1,130,740 |
| **NET ASSETS, END OF YEAR** | $ 966,208 | $ - | $ 966,208 |

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, 2016

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Decrease in net assets | $ (164,532) |
| Adjustments to reconcile increases in net assets to net cash provided by (used in) operating activities | |
| Depreciation expense | 97,885 |
| Receipt of contributed securites and other assets | (12,172) |
| Proceeds from sale of contributed securities | 62,267 |
| Net realized (gain) | (441) |
| Decrease in inventory | 2,000 |
| Decrease in pledges receivable | 95,000 |
| Decrease in prepaid expenses | 1,562 |
| Decrease in accounts receivable | 779 |
| Increase in sales tax payable | 54 |
| Increase in employee advances | (3,272) |
| Increase in accounts payable | 21,172 |
| Increase in accrued payroll taxes | 1,860 |
| Increase in accrued wages | 7,466 |
| Increase in accrued leave | 13,388 |
| Increase in credit cards payable | 17,817 |
| Loss on disposal of fixed assets | 570 |
| ***Net cash provided by operating activities*** | 141,403 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Cost of construction in progress | (168,426) |
| Cost of furniture and equipment | (27,220) |
| Proceeds from sale of fixed assets | 400 |
| *Net cash used in investing activities* | (195,246) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | |
| Payments on debt | (172,228) |
| Proceeds from new loan | 195,871 |
| ***Net cash provided by financing activities*** | 23,643 |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | (30,200) |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | 52,585 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | $ 22,385 |
| **SCHEDULE OF NONCASH INVESTING and FINANCING ACTIVITIES:** | |
| Notes payable incurred to purchase fixed assets | $ 181,071 |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:** | |
| Interest paid | $ 63,958 |

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

*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.

*Note 1: Summary of Operating Entity and Significant Accounting Policies- Continued*

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, 2016.

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.

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, 2016.

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.

The carrying amount approximates fair value because of the short-term maturity of these instruments.

Property and Equipment

HART follows the practice of capitalizing all expenditures for equipment and improvements in excess of $2,500. 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.

*Note 1: Summary of Operating Entity and Significant Accounting Policies- Continued*

Property and Equipment- continued

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.

Advertising

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

*Note 1: Summary of Operating Entity and Significant Accounting Policies- Continued*

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, 2016, 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 2013, 2014, and 2015 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.

Prepaid expenses

Prepaid expenses include expenditures for insurances and licenses.

Note 2: Deposits with Financial Institutions

At December 31, 2016, the carrying amount of deposits was $22,385 and the bank balance was $22,596.

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, 2016 is comprised of the following:

| | | |
|---|---|---|
| Adoption & Rescue Receivable | $ | 3,000 |
| Bredel Center Receivable | | 743 |
| | $ | 3,743 |

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: | **2016** |
|---|---|
| Short-term pledge | $ 5,000 |
| Total | $ 5,000 |

Pledges receivable as of December 31, 2016 are unrestricted. These unconditional promises to give are scheduled to be received by HART in the next year, and are considered to be fully collectible. Pledges receivable have not been discounted to net present value due to their short term status.

| | **2016** |
|---|---|
| Receivable in less than one year | $ 5,000 |
| Total pledges receivable | $ 5,000 |

Note 5: Property, Plant, and Equipment

Property and equipment is accounted for at cost and the value at December 31, 2016, consists of the following:

| | |
|---|---|
| Furniture & Equipment | $ 289,161 |
| Improvements | 35,562 |
| Buildings | 2,941,223 |
| Land | 325,784 |
| Vehicles | 3,165 |
| | 3,594,895 |
| Less accumulated depreciation | 262,454 |
| Net property and equipment | $ 3,332,441 |

There is no longer any Construction in Progress since the Adoption Wing has been finalized and opened.

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. | $ 1,541,544 |

Note 6: Long-Term Debt- continued

| | |
|---|---|
| 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. | 52,700 |
| United States Department of Agriculture loan dated December 31, 2014 due in monthly installments of $289 through December 31, 2044 at 3.5% interest. | 60,840 |
| Andre Pellet loan dated June 15, 2016 Due in monthly installments of $1,268 through June 30, 2017 at 3.5% interest. | 7,534 |
| Dutch's at Silver Tree loan dated November 1, 2016 at 0% interest. | 10,000 |
| Total | $ 1,672,618 |

The annual requirements to amortize the above debt outstanding at December 31, 2016 including interest in the amount of $867,498 is as follows:

| | |
|---|---|
| 2017 | $ 115,534 |
| 2018 | 97,924 |
| 2019 | 97,924 |
| 2020 | 97,924 |
| 2021 | 97,924 |
| Thereafter | 2,130,764 |
| Total: | $2,540,116 |

Note 7: Related Parties

The Corporation is indebted to officers of HART for Animals, Inc. As of December 31, 2016, the net Due to Officer consists of the following:

| | |
|---|---|
| Nancy Squires loan dated June 15, 2016 due in monthly installments of $3,093 through June 21, 2021 at 3.5% interest. | $170,000 |
| Pellet loan dated December 31, 2014 due in monthly installments of $5,035 through June 30, 2021 at 3.5% interest. | 251,222 |
| Caroline Robison loan dated August 31, 2016 with a one time payment of $5,000 due in March 2017 at 0% interest. | 5,000 |
| Chris and Petra Garosi loan dated May 1, 2016 with monthly installments of $758 through December 31, 2017 at 3.5% interest. | 8,925 |
| Paula Yudelevit loan dated June 15, 2016 with monthly installments of $1,684 through June 30, 2017 at 3.5% interest. | 10,000 |
| Total | $445,147 |

Note 7: Related Parties- continued

The annual requirements to amortize the above debt outstanding at December 31, 2016 including interest in the amount of $36,496 is as follows:

| | |
|---|---|
| 2017 | $ 121,729 |
| 2018 | 97,531 |
| 2019 | 97,531 |
| 2020 | 97,531 |
| 2021 | 67,321 |
| Total: | $ 481,643 |

Note 8: Line of Credit

HART for Animals has an unsecured financing agreement with its primary bank that permits multiple borrowings, at variable rates of interest, up to $20,000.

Note 9: 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 10: 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 11: 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 12: Evaluation of Subsequent Events

HART has evaluated, for possible financial statement disclosure, subsequent events through September 19, 2017, the date which the financial statements were available to be issued, and have determined there were no such events.