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January 28, 2010

Board of Directors
Humane Society of
Elkhart County, Inc.
54687 County Rd. 19
Bristol, IN 46507

We have reviewed the audit report prepared by Jurgonski & Fredlake, CPAs, Independent Public Accountants, for the period January 1, 2008 to December 31, 2008. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts except an opinion was not expressed on the statement of activities, statement of functional expense and statement of cash flows. Per the Independent Public Accountants' opinion, the statement of financial position included in the report presents fairly the financial condition of the Humane Society of Elkhart County, Inc., as of December 31, 2008, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

We call your attention to the findings in the report. The management letter contains ten comments.

STATE BOARD OF ACCOUNTS

HUMANE SOCIETY OF ELKHART COUNTY, INC.

FINANCIAL STATEMENT

December 31, 2008

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Greg Jurgonski
John A. Fredlake

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Humane Society of Elkhart County, Inc..
Bristol, Indiana

We have audited the accompanying statement of financial position of Humane Society of Elkhart County, Inc., (a not for profit organization) as of December 31, 2008. This financial statement is the responsibility of the Organization's management. Our responsibility is to express an opinion on this financial statement 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 statement of financial position is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial position. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provided a reasonable basis for our opinion.

Because we were not engaged to audit the statement of activities, statement of functional expense and cash flows, we did not extend our auditing procedures to enable us to express an opinion on results of operations and cash flows for the year ended December 31, 2008. Accordingly, we express no opinion on them.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Humane Society of Elkhart County, Inc. as of December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

Jurgonski & Fredlake CPAs

South Bend, Indiana
April 24, 2009

HUMANE SOCIETY OF ELKHART COUNTY, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2008

	<u>Unrestricted</u>	<u>Temporary Restricted</u>	<u>Total</u>
ASSETS			
Current assets			
Cash	\$ 158,551	\$ 75,963	\$ 234,514
Pledges receivable, current		10,000	10,000
Inventory	1,229		1,229
Prepaid expenses	3,321		3,321
	<u>163,101</u>	<u>85,963</u>	<u>249,064</u>
Property and equipment			
Furniture and fixtures	68,162		68,162
Autos	25,287		25,287
Building and improvements	744,360		744,360
Land	345,538		345,538
	<u>1,183,347</u>		<u>1,183,347</u>
Less accumulated depreciation	<u>(539,223)</u>		<u>(539,223)</u>
Net property and equipment	<u>644,124</u>		<u>644,124</u>
Pledges receivable, net of current portion		<u>29,633</u>	<u>29,633</u>
Total assets	<u>\$ 807,225</u>	<u>\$ 115,596</u>	<u>\$ 922,821</u>
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable	\$ 34,688	\$	\$ 34,688
Accrued liabilities	5,983		5,983
Note payable	145,339		145,339
Total current liabilities	<u>186,010</u>		<u>186,010</u>
Net assets			
Unrestricted	621,215		621,215
Temporarily restricted		<u>115,596</u>	<u>115,596</u>
Total net assets	<u>621,215</u>	<u>115,596</u>	<u>736,811</u>
Total liabilities and net assets	<u>\$ 807,225</u>	<u>\$ 115,596</u>	<u>\$ 922,821</u>

See Notes to Financial Statements.

HUMANE SOCIETY OF ELKHART COUNTY, INC.

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2008

(Unaudited)

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Elkhart County contracts	\$ 379,178	\$	\$ 379,178
Fundraisers	69,736		69,736
Adoption and other shelter fees	132,700		132,700
Land lease income	1,300		1,300
Donations	40,109	50,000	90,109
Grants	1,400		1,400
Miscellaneous	11,330		11,330
Euthanasia fees	7,100		7,100
Interest income	2,914		2,914
Membership income	1,250		1,250
Merchandise	494		494
Cemetery plots	2,000		2,000
Equipment rental fees	105		105
Loss on investment	(21,196)		(21,196)
Net assets released from restrictions	19,109	(19,109)	
Total revenues	647,529	30,891	678,420
EXPENSES			
General programs	690,982		690,982
Management and administrative	117,551		117,551
Total expenses	808,533		808,533
Change in net assets	(161,004)	30,891	(130,113)
Net assets, beginning of year	782,219	84,705	866,924
Net assets, end of year	\$ 621,215	\$ 115,596	\$ 736,811

See Notes to Financial Statements.

HUMANE SOCIETY OF ELKHART COUNTY, INC.

STATEMENT OF FUNCTIONAL EXPENSES INFORMATION

For the Year Ended December 31, 2008

	(Unaudited)		
	General Programs	Management and Administrative	Total
Salaries and wages	\$ 289,905	\$ 47,194	\$ 337,099
Payroll taxes	24,521	3,992	28,513
Total salaries and related expenses	314,426	51,186	365,612
Payroll processing fees	4,512	734	5,246
Health insurance	17,959	2,923	20,882
General and workers compensation insurance	13,963	735	14,698
Vehicle expense	32,614		32,614
Utilities	33,683	3,743	37,425
Spay and neuter	12,070		12,070
Office supplies	25,653	6,413	32,066
Repairs and maintenance	6,948	772	7,720
Phone and internet	9,230	1,026	10,255
Advertising	9,889	2,472	12,361
Interest expense	12,932	1,437	14,369
Microchip expense	6,302		6,302
Fundraising expense	14,373	1,597	15,970
Medical waste removal	8,911		8,911
Uniforms	4,441		4,441
Printing and copying	2,666	296	2,962
Bank and credit card fees	11,710	1,301	13,011
Shelter operations	2,792		2,792
Medical care and supplies	68,491		68,491
Professional fees		36,919	36,919
Euthanasia	5,070		5,070
Trash and disposal	1,688		1,688
Custodial	10,725		10,725
Conferences	5,963		5,963
Depreciation	36,933	4,104	41,037
Loss on disposal of property and equipment	11,667	1,296	12,963
Miscellaneous	5,373	597	5,970
Total expenses	<u>\$ 690,982</u>	<u>\$ 117,551</u>	<u>\$ 808,533</u>

See Notes to Financial Statements.

HUMANE SOCIETY OF ELKHART COUNTY, INC.

STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2008

	<u>(Unaudited)</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	<u>\$ (130,113)</u>
Adjustments to reconcile change in net assets to cash used in operating activities	
Depreciation	41,037
Loss on disposal of property and equipment	12,963
Change in assets (increase) decrease	
Receivables	(35,062)
Inventory	3,241
Prepaid	(3,280)
Change in liabilities increase	
Accounts payable	23,574
Accrued liabilities	<u>5,983</u>
Net adjustments	<u>48,456</u>
Net cash used in operating activities	<u>(81,657)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	<u>(7,115)</u>
Net cash used in investing activities	<u>(7,115)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal payments of note payable	<u>(316)</u>
Net cash used in financing activities	<u>(316)</u>
Decrease in cash	(89,088)
Cash, beginning of year	<u>323,602</u>
Cash, end of year	<u><u>\$ 234,514</u></u>
Supplemental disclosure of cash flow information	
Cash paid during the year for:	
Interest	<u><u>\$ 14,369</u></u>

See Notes to Financial Statements.

HUMANE SOCIETY OF ELKHART COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities:

Humane Society of Elkhart County, Inc. (the Organization), is a not for profit Organization whose principal activities are to promote respect for all animals and serves the community by preventing animal abuse, cruelty and neglect in Elkhart, Indiana. Funding is primarily provided by County contracts.

Significant Accounting Policies:

Basis of Accounting - The Organization's operations are accounted for on accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation - Financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards No. 117 (SFAS 117), Financial Statements of Not for Profit Organizations. Under SFAS 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Fair Value Measurement - Effective January 1, 2008, the Organization adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" (SFAS 157). In February 2008, the FASB issued Staff Position No. 157-2, "Effective Date of FASB Statement No. 157", which provides a one year deferral of the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Therefore, the Organization has adopted the provisions of SFAS 157 with respect to its financial assets and liabilities only and the adoption did not materially impact the financial statements. Management believes the adoption of SFAS 157 for nonfinancial assets and liabilities also will not have a material impact on the financial statements.

Functional Allocation of Expenses - The cost of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses information. Accordingly, certain costs have been allocated among the general programs and management and administrative expenses.

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

Contributions - Contributions received are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions.

HUMANE SOCIETY OF ELKHART COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Summary of Significant Accounting Policies (continued)

When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets as net assets released from restrictions.

The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Inventories – Inventories are stated at average cost, determined by using fair market value method.

Property and Equipment – Property and equipment received as a donation are recorded and reflected in the accompanying financial statements at their fair market value as of the date they were received. These donations of property and equipment are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily net assets to unrestricted net assets at that time. Purchased property and equipment are stated on the basis of cost. Major renewals and betterments are capitalized, while replacements, maintenance and repairs, which do not improve or extend the lives of the respective assets, are expensed currently. Property and equipment and accumulated depreciation are relieved upon retirement or sale and the gain or loss is included in income. Depreciation is provided by the straight line method. Estimated useful lives of the assets are as follows:

Furniture and equipment	3-5 years
Vehicles	5 years
Building and improvements	10-39 years

Contributed Services - A number of unpaid volunteers have made significant contributions of their time to the Organization. During the year ended December 31, 2008, the value of contributed time is not reflected in the accompanying financial statements since the volunteers' time does not meet the requirements for recognition under SFAS No. 116.

Note 2. Income Tax Status

The Organization operates as a not for profit corporation under Internal Revenue Code Section 501(c)(3) and a similar section of the Indiana tax law, which provides exemption from federal and state income taxes.

Note 3. Concentrations of Credit Risk

The Organization places its cash with a high credit quality financial institution. The Organization does not limit the amount of credit exposure and occasionally has cash balances in excess of the federal depository insurance limits.

HUMANE SOCIETY OF ELKHART COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 4. Pledge Receivables

Pledges receivable consist of an unpaid pledge commitment extending through 2012. The pledge is an unconditional promise to give associated with the shelter operations and has been discounted to the present value. Pledge receivable is unsecured and is due from an individual foundation. The Organization feels this pledge is fully collectable; therefore no allowance has been established. It is presented in the financial statements as pledges receivable, restricted net assets and revenue of the appropriate net asset category.

Pledges receivable as of December 31, 2008 are as follows:

Pledges due within one year	\$ 10,000
Pledges due in 2010	10,000
Pledges due in 2011	10,000
Pledges due in 2012	<u>10,000</u>
Total pledges due	40,000
Less present value discount - .37%	<u>(367)</u>
Pledges receivable - net	<u>\$ 39,633</u>

Pledges receivable as of December 31, 2008 are shown on the Statement of Financial Position, and are due as follows:

Current	\$ 10,000
Non current	<u>29,633</u>
	<u>\$ 39,633</u>

Note 5. Mortgage Payable

Mortgage payable, 7.75%, due to a bank. The mortgage calls for monthly payments of interest only. The mortgage matures in April, 2009. The Organization has received a three month extension on the mortgage under the terms discussed previously and is currently negotiating a long term agreement.

\$ 145,339

Interest expense for the year ended December 31, 2008 was \$14,369.

Note 6. Restrictions on Assets

At December 31, 2008, the restricted net assets are as follows:

Temporarily restricted

Pledge receivable	\$ 39,633
STOP Program - canine	<u>75,963</u>
	<u>\$ 115,596</u>

HUMANE SOCIETY OF ELKHART COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

Note 7. Advertising

The Organization expenses the cost of advertising the first time the advertising takes place. Advertising expense was \$12,361 for the year ended December 31, 2008.

Note 8. Leases

In March 2007, the Organization entered into a lease agreement for a copier under an operating lease agreement with an initial term of thirty six months. The lease calls for monthly payments of \$152. At December 31, 2008 the aggregate minimum rental commitments under the non cancelable lease is as follows for the years ending December 31:

2009	\$ 1,824
2010	<u>304</u>
Total minimum lease commitments	<u>\$ 2,128</u>

Note 9. Special Events

The Organization received support from fundraising events totaling \$69,736 and incurred event expenses totaling \$15,970 for the year ended December 31, 2008.

**Memorandum of Advisory Comments and
Other Required Communications**

Humane Society of Elkhart County, Inc.

April 24, 2009

To the Board of Directors
Humane Society of Elkhart County, Inc.
Bristol, Indiana

In planning and performing our audit of the statement of financial position of Humane Society of Elkhart County, Inc. (the Organization) as of December 31, 2008, in accordance with the auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the statement of financial position, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

Accounting Policy and Procedure Manual

We noted that the Organization does not have an accounting policy and procedures manual. Written procedures, instructions, and assignments of duties will prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. A well devised accounting manual can also help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management. A good accounting manual should aid in the training of new employees and possibly allow for delegation to other employees some accounting functions management performs. The manual should also include a procurement policy. It will take some time and effort for management to develop a manual; however, we believe this time will be more than offset by time saved later in training and supervising personnel. Also, in the process of the comprehensive review of existing accounting procedures for the purpose of developing the manual, management might discover procedures that can be eliminated or improved to make the system more efficient and effective.

Segregation of Duties

The size of the Organization's staff precludes certain internal control procedures that would be preferred if the staff were large enough to provide optimum segregation of duties. We recommend that the appropriate staff be more involved and that the Board of Directors remain involved in the financial affairs in order to provide oversight and independent review functions.

Contributed Services

Your Organization receives significant amounts of contributed services. Generally accepted accounting principles require recognition of these contributions at fair market value and should be recorded in the financial statements as they are received or used. We recommend that these contributions be recorded as they incur and that the valuation of these items at fair market can be substantiated.

Capitalization Policy

Our audit indicated that there is no capitalization policy. To minimize the effort required to account for these purchases, we recommend that a limit be set. This limit should be based on the size of your Organization and the practices followed by Organizations of similar size.

Cancel Invoices and Supporting Documents

The Organization does not have a policy of canceling invoices and supporting documentation at the time the invoices are paid. Thus, the invoices are susceptible to unintentional duplicate payment or intentional misuse. A simple control against those dangers is to only pay from original invoices and to mark invoices with a "paid" stamp or other indication of payment while they are in the custody of the check preparer or signer. Such a procedure would add very little time to the bill paying process but would serve as prevention against misuse or repayment of the invoices.

Approval of the Bank Reconciliation

The bank account is being reconciled monthly by the finance manager; however, it is not being reviewed and approved. We recommend that the reconciliation should be reviewed and approved each month by the Executive Director to avoid intentional and unintentional errors.

Physical Fixed Asset Inventory

Our audit indicated that the detail property and equipment listing maintained by the Organization had not been reconciled to an actual physical count in recent years. To provide effective accountability over property and equipment owned, and assure reliability of records maintained, we recommend a physical inventory of property and equipment should be taken periodically, not necessarily each year.

Disaster Recovery

Currently, backup copies of non accounting files are performed monthly. However, these copies are kept in a file cabinet in the Executive Director's office. One of the main reasons for creating backup files is to be able to recover in the event of a disaster, such as fire, tornado or water damage. We recommend that one set of backup files be stored in a fireproof cabinet in the Executive Director's office and one set be taken off site.

Finance Committee

We noted that the Organization does not have a finance committee. We recommend that a committee should be formed to oversee the financial responsibilities of the Organization.

Policies and Procedures

During our audit, we noted that the Organization does not have the following policies documented.

- Conflict of Interest
- A whistleblower policy

In addition, property tax exemptions were not filed and donors did not receive appropriate documentation to support charitable contributions. Also the Organization received a donation restricted for the STOP program (Stop the Overpopulation of Pets) for dogs in prior years and the internal accounting system did not track the use of the restrictions.

The Organization must do everything possible to protect its tax exempt status and implement the appropriate policies and procedures.

Required Communications

We have audited the statement of financial position of Humane Society of Elkhart County, Inc. as of December 31, 2008 and have issued our report thereon dated April 15, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated April 6, 2009, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the statement of financial position is free of material misstatement and is fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Organization. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Organization are described in Note 1 to the financial statements. We noted no transactions entered into by the Organization during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant estimate affecting the financial statements is the allocation of expenses among program, management and administrative.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. There were three significant audit adjustments proposed during the 2008 audit.

- Recording of a pledge receivable
- Recording of depreciation
- Recording additional accounts payable

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our financial audit.

We were pleased to serve Humane Society of Elkhart County, Inc. as its independent auditors for 2008 and look forward to our continued relationship. We provide the above information to assist you in performing your oversight responsibilities and would be pleased to discuss this letter or any matters further, should you desire.

This report is intended solely for the information and use of the Board of Directors, Humane Society of Elkhart County, Inc. management, and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

Jurgonski & Fredlake CPAs