

**INTERNATIONAL HEARING  
DOG, INC.**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

**INTERNATIONAL HEARING DOG, INC.**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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Taylor, Roth and Company, PLLC  
Certified Public Accountants  
working exclusively with nonprofit organizations

December 15, 2017

Independent Auditors' Report

Board of Directors  
International Hearing Dog  
Henderson, Colorado

We have audited the accompanying statement of financial statements of **International Hearing Dog, Inc.** (a Colorado nonprofit corporation) which comprise the statement of financial position as of September 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

***Management's Responsibility***

Management is responsible for the preparation and fair presentation of the 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 of material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatements 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 estimates made by management, as well as evaluating the overall financial statement presentation.

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 International Hearing Dog as of September 30, 2017, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited International Hearing Dog's 2016 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated December 20, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Taylor, Roth & Company, PLLC*  
TAYLOR, ROTH AND COMPANY, PLLC  
CERTIFIED PUBLIC ACCOUNTANTS

**INTERNATIONAL HEARING DOG, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2017**  
**(WITH COMPARATIVE TOTALS FOR 2016)**

	<u>2017</u>	<u>2016</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 53,552	\$ 25,172
Accounts receivable	1,263	351
Prepaid expenses	1,492	4,925
Inventory (Note 3)	5,656	2,146
Investments (Note 4)	1,133,174	581,591
Other assets (Note 5)	15,369	14,127
Net property and equipment (Note 6)	<u>85,939</u>	<u>84,821</u>
Total assets	<u>\$ 1,296,445</u>	<u>\$ 713,133</u>
<u>Liabilities and net assets</u>		
<u>Liabilities</u>		
Accounts payable	\$ 8,951	\$ 6,429
Accrued payroll costs	13,222	8,296
Commitment and contingency (Note 7)		
Total liabilities	<u>22,173</u>	<u>14,725</u>
<u>Net assets</u>		
<u>Unrestricted</u>		
Operating	141,098	116,817
Board designated endowment (Note 4)	<u>1,133,174</u>	<u>581,591</u>
Total net assets	<u>1,274,272</u>	<u>698,408</u>
Total liabilities and net assets	<u>\$ 1,296,445</u>	<u>\$ 713,133</u>

The accompanying notes are an integral part of these financial statements

**INTERNATIONAL HEARING DOG, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**  
**(WITH COMPARATIVE TOTALS FOR 2016)**

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Total
<u>Revenue and other support</u>				
Wills and bequests	\$ 750,000	\$ -	\$ 750,000	\$ 142,754
Foundations	138,249	-	138,249	156,500
Fundraising (Note 8)	53,325	-	53,325	45,739
Dog sponsorships	40,500	-	40,500	34,000
Service clubs	33,910	-	33,910	43,522
Individuals	29,765	-	29,765	29,406
Business groups	4,275	-	4,275	4,723
Increase in cash value of life insurance	1,242	-	1,242	1,489
All other	1,181	-	1,181	1,386
In-kind (Note 9)	8,055	-	8,055	13,554
<b>Total revenue and other support</b>	<b>1,060,502</b>	<b>-</b>	<b>1,060,502</b>	<b>473,073</b>
<u>Expense</u>				
<u>Program services</u>				
Dog training	414,852	-	414,852	384,718
Education	12,278	-	12,278	16,894
<b>Total program expense</b>	<b>427,130</b>	<b>-</b>	<b>427,130</b>	<b>401,612</b>
<u>Supporting services</u>				
Management and general	50,688	-	50,688	47,302
Fund-raising	58,415	-	58,415	26,637
<b>Total expense</b>	<b>536,233</b>	<b>-</b>	<b>536,233</b>	<b>475,551</b>
Change in net assets before interest and investment income	524,269	-	524,269	(2,478)
Interest and investment income	51,595	-	51,595	55,196
<b>Change in net assets</b>	<b>575,864</b>	<b>-</b>	<b>575,864</b>	<b>52,718</b>
Net assets, beginning of year	698,408	-	698,408	645,690
<b>Net assets, end of year</b>	<b>\$ 1,274,272</b>	<b>\$ -</b>	<b>\$ 1,274,272</b>	<b>\$ 698,408</b>

The accompanying notes are an integral part of these financial statements

**INTERNATIONAL HEARING DOG, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**  
**(WITH COMPARATIVE TOTALS FOR 2016)**

	2017					2016	
	Program services			Supporting services		Total	Total
	Dog Training	Education	Total Program Services	Management and General	Fund- raising		
Salaries	\$ 252,258	\$ 9,342	\$ 261,600	\$ 31,144	\$ 18,685	\$ 311,429	\$ 272,168
Payroll taxes and benefits	35,219	1,196	36,415	3,989	2,395	42,799	45,814
Dog delivery and supplies	39,445	-	39,445	-	-	39,445	39,686
Fund-raising consultant	-	-	-	-	25,000	25,000	-
Professional fees	6,955	-	6,955	12,240	-	19,195	19,385
Office operations	12,308	-	12,308	863	-	13,171	14,449
Dog operations	11,253	-	11,253	-	-	11,253	18,482
Utilities	10,234	-	10,234	491	-	10,725	11,009
Repair and maintenance	10,513	-	10,513	-	-	10,513	9,744
Telephone	8,663	-	8,663	-	-	8,663	7,540
Insurance	8,594	-	8,594	-	-	8,594	8,572
Postage and mailings	834	335	1,169	32	5,319	6,520	7,197
License and fees	3,962	-	3,962	-	-	3,962	2,558
Website	1,940	-	1,940	245	-	2,185	2,832
Travel	2,079	-	2,079	-	-	2,079	785
Promotion	-	977	977	-	880	1,857	5,671
All other	3,324	159	3,483	786	5,598	9,867	3,127
	407,581	12,009	419,590	49,790	57,877	527,257	469,019
Depreciation	7,271	269	7,540	898	538	8,976	6,532
<b>Total</b>	<b>\$ 414,852</b>	<b>\$ 12,278</b>	<b>\$ 427,130</b>	<b>\$ 50,688</b>	<b>\$ 58,415</b>	<b>\$ 536,233</b>	<b>\$ 475,551</b>

The accompanying notes are an integral part of these financial statements

**INTERNATIONAL HEARING DOG, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**  
**(WITH COMPARATIVE TOTALS FOR 2016)**

	<u>2017</u>	<u>2016</u>
<u>Cash flows from operating activities</u>		
Change in net assets	\$ 575,864	\$ 52,718
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	8,976	6,532
(Gains)losses on investments	(41,612)	(44,800)
<u>Changes in operating assets and liabilities</u>		
(Increase)decrease in accounts receivable	(912)	3,765
(Increase)decrease in pledges receivable	-	5,000
(Increase)decrease in prepaid expenses	3,433	(552)
(Increase)decrease in inventory	(3,510)	2,616
(Increase)decrease in other assets	(1,242)	(1,489)
Increase(decrease) in accounts payable	2,522	(2,653)
Increase(decrease) in payroll accruals	4,926	(9,450)
Net cash provided(used) by operating activities	<u>548,445</u>	<u>11,687</u>
<u>Cash flows from investing activities</u>		
(Purchases) of investments	(750,000)	(142,755)
(Reinvestment) of earnings	(9,971)	(10,344)
Proceeds from investments	250,000	160,000
(Purchases) of fixed assets	(10,094)	(12,020)
Net cash provided(used) by investing activities	<u>(520,065)</u>	<u>(5,119)</u>
Net increase(decrease) in cash and cash equivalents	28,380	6,568
Cash and cash equivalents, beginning of year	<u>25,172</u>	<u>18,604</u>
Cash and cash equivalents, end of year	<u>\$ 53,552</u>	<u>\$ 25,172</u>

The accompanying notes are an integral part of these financial statements

**INTERNATIONAL HEARING DOG, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2017**

**NOTE 1 - NATURE OF ACTIVITIES**

International Hearing Dog, Inc. (the Organization) was established for the purpose of training and placing hearing dogs with deaf individuals, with or without multiple handicaps, at no charge to the recipient. The Organization is supported primarily through wills and bequests, foundations, and fundraising. The Organization operates the following major programs:

**Dog Training** - The training and placement of hearing dogs at no cost to the recipient. The recipient may chose to pay for the certification or for additional equipment.

**Education** - To raise public awareness regarding the legal access rights of a hearing dog and the role of a hearing dog in assisting the deaf and hearing impaired.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES**

1. **Basis of Accounting**

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

2. **Basis of Presentation**

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.

3. **Cash and Cash Equivalents**

The Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

4. **Accounts Receivable**

The Organization states accounts receivable at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES (Continued)

5. Donations

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction is met, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities, as net assets released from restrictions.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless the explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent donor stipulations regarding how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

6. Capitalization and Depreciation

The Organization follows the practice of capitalizing all expenditures for furniture and equipment in excess of \$1,500. The fair value of donated assets is similarly capitalized. Depreciation of furniture and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

7. 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.

8. Income Taxes

The Organization has received an Internal Revenue Service exemption from federal income taxes under Section 501(c)(3). Accordingly, no provision or liability for income taxes has been provided in the accompanying financial statements.

9. Functional Reporting of Expenses

For the year ended September 30, 2017, the costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

10. Fair Value Measurements

The Organization is subject to the provisions of the *Fair Value Measurements and Disclosures* accounting standard. This standard requires use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels: quoted market prices in active markets for identical assets and liabilities (Level 1); inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly (Level 2); and unobservable inputs for the asset or liability (Level 3).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES (Concluded)

11. Summarized Prior-Year Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2016, from which the summarized information was derived.

12. Subsequent Events

Management has evaluated subsequent events through December 15, 2017, the date the financial statements were available to be issued and found no events that would materially alter the results presented herein.

NOTE 3 - INVENTORY

Inventory consists of collars, leashes, vari-kennels, videos, patches and other promotional items. Inventory is valued on the First-In-First-Out (FIFO) basis.

NOTE 4 - INVESTMENTS – BOARD DESIGNATED ENDOWMENT

Investments (Level 1 inputs) are stated at their fair market values as follows:

<u>Description</u>	<u>Fair Value</u>
Cash and short-term cash funds	\$ 49,007
Mutual funds	<u>1,084,167</u>
Total	<u>\$ 1,133,174</u>

Investment income is summarized as follows:

<u>Description</u>	<u>Amount</u>
Net realized and unrealized gain(loss) on investments	\$ 41,612
Interest and dividend income	14,517
Less management fees	<u>(4,546)</u>
Net investment return	<u>\$ 51,583</u>

In addition, the Organization generated \$12 in operating interest from cash and cash equivalents.

NOTE 4 - INVESTMENTS – BOARD DESIGNATED ENDOWMENT (Concluded)

Annually, the board of directors determines the allocation of funds for operations. Changes in board designated net assets for the year ended September 30, 2017 consisted of:

<u>Description</u>	<u>Amount</u>
Balance, beginning of year	\$ 581,591
Additions	750,000
Withdrawals	(250,000)
Net investment income	<u>51,583</u>
Balance, end of year	<u>\$ 1,133,174</u>

Wills and Bequests

The Organization transferred the entire \$750,000 received from wills and bequests to the endowment. Management and the board review their strategic plan and approve withdrawals for general operations as needed.

Concentration of Credit Risk

The Organization has significant investments in stock, as well as stock and bond mutual funds. The market value of these investments is subject to fluctuation on a year-to-year basis.

NOTE 5 - OTHER ASSETS

At year-end, the cash value of the life insurance policy on the Executive Director was \$15,369. The policy would pay a \$150,000 death benefit with International Hearing Dog as the beneficiary. The Organization pays the premiums.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

<u>Description</u>	<u>Amount</u>
Leasehold improvements	\$ 91,080
Buildings and improvements	169,796
Vehicles	10,001
Kennels	23,516
Office equipment	<u>30,754</u>
Total	325,147
Accumulated depreciation	<u>(239,208)</u>
Net property and equipment	<u>\$ 85,939</u>

Depreciation expense for the current year was \$8,976.

NOTE 7 - COMMITMENT AND CONTINGENCY

The buildings and improvements owned by International Hearing Dog (Organization) are located at their Henderson Colorado address. The property on which these buildings rest is leased primarily from the Colorado Division of Wildlife under a twenty-five year lease agreement. Due to discrepancies in prior years surveying, there is, however, a strip of land, .282 acre, which is not owned by the Division of Wildlife that runs across the property on which the buildings are located. This strip of land is not subject to any long-term lease agreement, but is leased on a year-by-year basis. In case future difficulties arise in property ownership and possession, arrangements to have the buildings moved will be the sole responsibility of the Organization.

The Organization will make payments of \$100 per annum until the lease ends July 31, 2039. Either party may terminate the agreement, but must provide a one year prior written notice. The Organization will have three options to extend the lease for another twenty-five year term, potentially totaling 100 years.

NOTE 8 - FUNDRAISING EVENTS

The current year fund-raising event revenue consisted of:

<u>Description</u>	<u>Amount</u>
Gross revenue	\$ 65,491
Less: direct expenses	<u>(12,166)</u>
Total	<u>\$ 53,325</u>

NOTE 9 - IN-KIND REVENUE AND EXPENSE

Donated goods and services are reflected in the accompanying statements at their estimated values at date of receipt. Donated goods and services for the current year amounted to:

<u>Description</u>	<u>Amount</u>
Materials	\$ 4,905
Services	<u>3,150</u>
Total	<u>\$ 8,055</u>

NOTE 10 - PENSION PLAN

The Organization has adopted a SIMPLE IRA plan that will match up to three percent of the employee's contribution. Total pension expense for the current year was \$6,052.