

INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
International Horn Society  
P.O. Box 630158  
Lanai City, HI 96763

We have audited the accompanying financial statements of International Horn Society (an Illinois nonprofit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, change in net assets 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 International Horn Society as of December 31, 2013, 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.

*Report on Summarized Comparative Information*

We have previously audited the International Horn Society 2012 financial statements, and our report dated July 16, 2013 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Carborneo CPAs & Management Group*  
Wailuku, Hawai'i

June 9, 2014

International Horn Society

**Statements of Financial Position**  
As of December 31, 2013 and 2012

	<b>ASSETS</b>	
	2013	2012
<b>CURRENT ASSETS</b>		
Cash & Cash Equivalents (Note 2)	\$ 272,738	\$ 261,887
Accounts Receivable	14,441	5,729
Inventory	6,893	6,948
Total Current Assets	294,072	274,564
<b>Other Assets</b>		
Fidelity Investments - CDs	26,218	26,218
Prepaid Expenses	50,019	20,000
Total Other Assets	76,237	46,218
<b>TOTAL ASSETS</b>	\$ 370,309	\$ 320,782
	<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 8,757	\$ 13,166
Deferred Revenue	3,675	-
Total Current Liabilities	12,432	13,166
<b>NET ASSETS (Note 3)</b>		
Unrestricted	167,642	125,544
Temporarily Restricted:		
Advance Memberships	66,050	62,012
Scholarship	99,740	99,444
MCI Fund	2,644	-
Friendship	21,801	20,616
Total Temporarily Restricted	190,235	182,072
Total Net Assets	357,877	307,616
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 370,309	\$ 320,782

The accompanying notes are an integral part of these financial statements.

International Horn Society

**Statement of Activities**  
 For the Year Ended December 31, 2013  
 (With Comparative Totals for the Year Ended December 31, 2012)

REVENUE	2013			2012
	Unrestricted	Temporarily Restricted	Total	Total
Dues	\$ -	\$ 104,090	\$ 104,090	\$ 81,938
Advertising	67,290		67,290	67,987
Workshop Income	11,551		11,551	-
Merchandise Sales	5,216		5,216	3,648
Scholarship		4,510	4,510	4,027
General Donations & Support	4,179		4,179	2,051
Major Commission Initiative Fund		2,644	2,644	
Manuscript Revenue	1,755		1,755	801
Friendship Donations		1,185	1,185	1,520
Royalties	1,044		1,044	1,158
Invest Inc.	456	229	685	2,271
Publication Sales	265		265	80
Released from Restriction	104,495	(104,495)	-	-
<b>Total Revenue</b>	<b>196,251</b>	<b>8,163</b>	<b>204,414</b>	<b>165,481</b>
<b>EXPENSES</b>				
Contract Labor	47,671		47,671	44,606
Printing	47,103		47,103	49,342
Postage Freight	19,374		19,374	17,589
Travel	10,194		10,194	11,407
Professional Services	5,588		5,588	5,588
Scholarships	4,443		4,443	4,089
Bank Fees	4,247		4,247	3,752
Regional Workshops	3,800		3,800	2,000
Commission Assistance	3,300		3,300	6,250
MD Expense	2,454		2,454	2,548
Miscellaneous	1,852		1,852	718
International Workshop	1,379		1,379	3,507
Office Expenses	1,206		1,206	398
Advertising Expense	344		344	401
Area Representative Expense	436		436	-
Web Site Expenses	270		270	8,936
Computer	239		239	59
Copyright Fees	195		195	195
Thesis Lending	58		58	93
Bad Debt	-		-	1,500
<b>Total Expenses</b>	<b>154,153</b>	<b>-</b>	<b>154,153</b>	<b>162,978</b>
<b>Excess Revenue Over Expenses</b>	<b>\$ 42,098</b>	<b>\$ 8,163</b>	<b>\$ 50,261</b>	<b>\$ 2,503</b>

The accompanying notes are an integral part of these financial statements.

International Horn Society

**Statements of Change in Net Assets**  
For the Years Ended December 31, 2013 and 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total Net Assets</u>
Net Assets, December 31, 2011	\$ 120,963	\$ 184,150	\$ 305,113
Excess Revenue Over (Under) Expenses	4,581	(2,078)	2,503
Net Assets, December 31, 2012	\$ 125,544	\$ 182,072	\$ 307,616
Excess Revenue Over Expenses	42,098	8,163	50,261
Net Assets, December 31, 2013	<u>\$ 167,642</u>	<u>\$ 190,235</u>	<u>\$ 357,877</u>

International Horn Society

**Statements of Cash Flows**  
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Excess Revenue Over Expenses	\$ 50,261	\$ 2,503
Adjustments to reconcile excess revenue over expenses to net cash used by operating activities:		
Bad debt	-	1,500
(Increase) decrease in operating assets:		
Accounts receivable	(8,712)	9,465
Inventory	55	(2,221)
Prepaid Expenses	(30,019)	(20,000)
Deferred Revenue	3,675	-
(Decrease) increase in operating liabilities:		
Accounts payable	<u>(4,409)</u>	<u>6,581</u>
<b>NET PROVIDED (USED) FROM OPERATING ACTIVITIES</b>	<b>10,851</b>	<b>(2,172)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net Redemption of CDs	-	50,000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	-	-
<b>NET INCREASE IN CASH</b>	<u><b>10,851</b></u>	<u><b>47,828</b></u>
<b>CASH AT BEGINNING OF YEAR</b>	<u>261,887</u>	<u>214,059</u>
<b>CASH AT END OF YEAR</b>	<u><u>\$ 272,738</u></u>	<u><u>\$ 261,887</u></u>

International Horn Society

**Notes to the Financial Statements**  
For December 31, 2013

Note 1. ORGANIZATION

International Horn Society (the Organization) is a State of Illinois private non-profit agency incorporated in August 1977 to promote musical education with particular references to the horn. The By-Laws of the International Horn Society dictate that membership in the Society shall be open to all persons and institutions with a special interest in the horn. In an effort to promote the organization, the Society publishes The Horn Call, a newsletter, and other information for those with a special interest in the horn. The Society also awards scholarships and commissions and sponsors workshops promoting the horn.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Accrual Basis of Accounting:* International Horn Society uses the accrual basis of accounting. Under this method of accounting, revenue is recognized when earned rather than when received and expenses are recognized when incurred rather than when paid.

*Income Taxes:* International Horn Society is exempt from income taxes under Internal Revenue Code Section 501 (c)(3). Accordingly, no provision for income taxes is made in the statements of activity and financial position.

The financial statement effects of a tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the statement of activities. As of December 31, 2013, the organization has analyzed its tax positions and believes that all are more likely than not to be sustained upon examination.

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for years prior to 2010.

*Cash and Cash Equivalents:* Cash equivalents consist of highly liquid investments with original maturities of three months or less at the date of purchase. Cash equivalents consist of checking accounts and money market accounts.

*Concentration of Credit Risk:* The Organization maintains cash balances in banks. These balances are insured by the Federal Deposit Insurance Corporation. As of December 31, 2013, the Organization did not exceed the federally insured limit.

*Accounts Receivable:* Management reviews receivables on a periodic basis to determine if an allowance for doubtful accounts is necessary based on past collection history and the current composition of the accounts receivable balance. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction to bad debt expense when received.

*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.

International Horn Society

Notes to the Financial Statements  
For December 31, 2013

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Advertising Policies:* Management expenses all advertising costs as incurred. Advertising expense for 2013 was \$344.

*Marketable Securities:* Investments in marketable securities are stated at fair value based on quoted market prices and are classified as available-for-sale in the financial statements. The cost of investments sold is determined using the specific identification method. Changes in market value are reflected in the statement of activities.

Note 3. NET ASSETS

International Horn Society has conformed to FASB ASC 958-210-45-9 "Not-for-Profit Entities, Classifications of Net Assets". Accordingly, 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. As of December 31, 2013, there were no permanently restricted net assets.

Temporarily restricted net assets represent restricted funds received from foundations and donors for which the restriction had not been yet fulfilled as of December 31, 2013. Temporarily restricted net assets equaled \$190,235 and \$182,072 as of December 31, 2013 and 2012 respectively.

Changes in the temporarily restricted net asset account for the year ended December 31, 2013 follow:

	Membership Dues	Scholarships	Friendship Fund	MCI Fund	Life Memberships	Total
Balance at December 31, 2012	\$ 26,263	\$ 99,444	\$ 20,616	\$ -	\$ 35,749	\$182,072
<b>Temporarily Restricted Support Received</b>						
Membership Dues	97,840				6,250	104,090
Hawkins Scholarship		3,000				3,000
Major Commission Initiative				2,644		2,644
Tuckwell Scholarship		10				10
Farkas Scholarship		25				25
DeRosa Scholarship		55				55
Lawson Scholarship		265				265
Mansur Scholarship		150				150
General Scholarship		1,005				1,005
Friendship Project			1,185			1,185
Interest Allocation		229				229
Released from Restrictions	<u>(95,476)</u>	<u>(4,443)</u>	<u>-</u>	<u>-</u>	<u>(4,576)</u>	<u>(104,495)</u>
Balance at December 31, 2013	<u>\$ 28,627</u>	<u>\$ 99,740</u>	<u>\$ 21,801</u>	<u>\$ 2,644</u>	<u>\$ 37,423</u>	<u>\$190,235</u>



International Horn Society

**Notes to the Financial Statements**  
For December 31, 2013

Note 4. DONATED SERVICES

According to FASB's Codification "Revenue Recognition of Contributed Services (958-605-30-10)", contributions of donated services that create or enhance non-financial assets or that require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. These contributions have not been reflected in the statements for other donated services in-as-much as no objective basis is available to measure the value of such services and they do not meet the reporting requirements for the standard. However, a number of volunteers have donated significant amounts of their time in program services.

Note 5. FUNCTIONAL EXPENSES

The International Horn Society allocates expenses on a functional basis among three categories: direct program services, management and general, and fundraising. Most expenses are allocated directly to the program or support services benefited. Certain expenses are allocated using a percentage base. The allocation at December 31, 2013, is as follows:

Direct program services	\$107,155
Management and General	46,413
Fundraising	<u>586</u>
Total Expenses	<u>\$154,153</u>

Note 6. SUBSEQUENT EVENTS

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through June 9, 2014 the date the financial statements were available to be issued.