

# **INTERNATIONAL HORN SOCIETY**

(An Illinois Nonprofit Corporation)

**FINANCIAL STATEMENTS**  
(With Independent Auditors' Report)

**FOR THE YEAR ENDED DECEMBER 31, 2018**  
(With Unaudited Comparative Totals for the Year Ended December 31, 2017)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
International Horn Society  
Chicago, Illinois 60606

We have audited the accompanying financial statements of International Horn Society (a nonprofit corporation) (the Organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, change in net assets, functional expenses 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 of 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, 2018, 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 compiled the International Horn Society's 2017 financial statements, and in our report dated June 15, 2018, we did not express an opinion on these financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the compiled financial statements from which it has been derived.

***Carbonaro CPAs & Management Group***

Wailuku, Hawaii  
May 29, 2019

International Horn Society

**Statements of Financial Position**  
As of December 31, 2018 and 2017

<b>ASSETS</b>		
	2018 (Audited)	2017 (Unaudited)
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents (Note 2)	\$ 275,923	\$ 267,908
Accounts Receivable (Notes 2 and 7)	31,001	525
Prepaid Expenses	1,450	25
Inventory	6,478	6,990
	<u>314,852</u>	<u>275,448</u>
Total Current Assets		
	<u>314,852</u>	<u>275,448</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 314,852</u></u>	<u><u>\$ 275,448</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 1,083	\$ 701
Related Party Loan	-	2,200
	<u>1,083</u>	<u>2,901</u>
<b>TOTAL LIABILITIES</b>	1,083	2,901
<b>NET ASSETS (Note 3)</b>		
Without Donor Restrictions	89,578	48,267
With Donor Restrictions		
Scholarships and Commission Initiatives	96,973	96,440
Friendship	22,906	21,966
Advanced Memberships	104,312	105,874
	<u>224,191</u>	<u>224,280</u>
Total With Donor Restrictions		
	<u>224,191</u>	<u>224,280</u>
<b>TOTAL NET ASSETS</b>	<u>313,769</u>	<u>272,547</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 314,852</u></u>	<u><u>\$ 275,448</u></u>

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

International Horn Society

**Statement of Activities**

For the Year Ended December 31, 2018

(With Comparative Totals for the Year Ended December 31, 2017)

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total (Audited)	Total (Unaudited)
REVENUE				
Dues	\$ -	\$ 94,602	\$ 94,602	\$ 112,858
Advertising	64,182	-	64,182	65,613
Workshop Income	31,908	-	31,908	17,315
Merchandise Sales	12,876	-	12,876	252
General Donations and Support	8,492	1,940	10,432	1,050
Manuscript Revenue	5,900	-	5,900	7,153
Net Investment Income	1,768	966	2,734	1,047
Scholarship		2,550	2,550	803
Composition Registration	1,100	-	1,100	-
Major Commission Initiative Fund		1,000	1,000	1,475
Royalties	903	-	903	341
Publication Sales	15	-	15	-
Other Income	-	-	-	70
Released from Restriction	101,147	(101,147)	-	-
Total Revenue	<u>228,291</u>	<u>(89)</u>	<u>228,202</u>	<u>207,977</u>
EXPENSES				
Program Services	137,383	-	137,383	153,419
Management and General	48,957	-	48,957	43,809
Fundraising	640	-	640	500
Total Expenses	<u>186,980</u>	<u>-</u>	<u>186,980</u>	<u>197,728</u>
Change in Net Assets	<u>\$ 41,311</u>	<u>\$ (89)</u>	<u>\$ 41,222</u>	<u>\$ 10,249</u>

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, 2018 and 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Assets</u>
Net Assets, December 31, 2016	\$ 65,501	\$ 196,797	\$ 262,298
Change in Net Assets	<u>(17,234)</u>	<u>27,483</u>	<u>10,249</u>
Net Assets, December 31, 2017	\$ 48,267	\$ 224,280	\$ 272,547
Change in Net Assets	<u>41,311</u>	<u>(89)</u>	<u>41,222</u>
Net Assets, December 31, 2018	<u>\$ 89,578</u>	<u>\$ 224,191</u>	<u>\$ 313,769</u>

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

International Horn Society

**Statement of Functional Expenses**

For the Year Ended December 31, 2018

(With Comparative Totals for the Year Ended December 31, 2017)

	Supporting Services			2018	2017
	Program Services	Management and General	Fundraising	Total (Audited)	Total (Unaudited)
EXPENSES					
Contract Labor	\$ 36,946	\$ 25,800	\$ 640	\$ 63,386	\$ 54,807
Printing	45,135	1,627	-	46,762	47,264
Postage Freight	15,289	1,677	-	16,966	21,729
International Workshop	10,658	-	-	10,658	26,462
Commission Assistance	10,250	-	-	10,250	8,350
Merchandise Expense	8,003	-	-	8,003	2,556
Travel	-	6,592	-	6,592	11,530
Bank Fees	-	4,563	-	4,563	5,553
Regional Workshops	4,000	-	-	4,000	4,800
Scholarships	3,983	-	-	3,983	3,950
Professional Services	-	3,652	-	3,652	3,023
Miscellaneous	987	2,353	-	3,340	958
Archive Expense	-	1,600	-	1,600	1,851
Office Expenses	156	1,093	-	1,249	371
Web Site Expenses	1,147	-	-	1,147	1,360
Manuscript Expense and Royalties	365	-	-	365	405
Copyright Fees	255	-	-	255	255
Thesis Lending	209	-	-	209	-
Composition Contest	-	-	-	-	2,504
Total Expenses	<u>\$ 137,383</u>	<u>\$ 48,957</u>	<u>\$ 640</u>	<u>\$ 186,980</u>	<u>\$ 197,728</u>

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

International Horn Society

**Statements of Cash Flows**  
For the Years Ended December 31, 2018 and 2017

	2018 <u>(Audited)</u>	2017 <u>(Unaudited)</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 41,222	\$ 10,249
Adjustments to reconcile excess revenue over expenses to net cash provided (used) by operating activities:		
(Increase) decrease in operating assets:		
Accounts receivable	(30,476)	7,391
Prepaid Expenses	(1,425)	(25)
Inventory	512	1,014
Increase (Decrease) in operating liabilities:		
Accounts payable	382	(26,599)
	<u>10,215</u>	<u>(7,970)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	10,215	(7,970)
CASH FLOWS FROM INVESTING ACTIVITIES	-	-
CASH FLOWS FROM FINANCING ACTIVITIES		
(Payment) Proceeds from Related Party Loan	(2,200)	2,200
	<u>8,015</u>	<u>(5,770)</u>
NET INCREASE (DECREASE) IN CASH	8,015	(5,770)
CASH AT BEGINNING OF YEAR	<u>267,908</u>	<u>273,678</u>
CASH AT END OF YEAR	<u>\$ 275,923</u>	<u>\$ 267,908</u>

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



## International Horn Society

### Notes to the Financial Statements

December 31, 2018

#### Note 1. ORGANIZATION

International Horn Society (the Organization) is a State of Illinois private nonprofit 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, International Horn Society publishes The Horn Call, a newsletter, and other information for those with a special interest in the horn. The Organization 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 activities and financial position. (Note 4).

*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 and investment companies. These balances are insured by the Federal Deposit Insurance Corporation and the Security Investor Protection Corporation. As of December 31, 2018, 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.

*Use of 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.

*Advertising Policies:* Management expenses all advertising costs as incurred. Advertising expense for the years ending December 31, 2018 and 2017 were \$156 and \$46, respectively.

*Inventory:* Souvenir product inventory is stated at the lower of costs or market value. Cost is determined using the first-in, first-out (FIFO) method.

International Horn Society

**Notes to the Financial Statements**

December 31, 2018

Note 3. NEW ACCOUNTING PRONOUNCEMENTS

On August 18, 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. International Horn Society has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the unaudited comparative period presented. The new standards change the following aspects of the Organization’s financial statements:

The temporarily restricted net asset class has been renamed net assets with donor restrictions. The unrestricted net asset class has been renamed net assets without donor restrictions.

Net assets, revenue, and support are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net assets without donor restrictions include all resources that are not subject to donor-imposed stipulations or contributions with donor-imposed restrictions that are met during the same year as the contribution is made. Net assets without donor restrictions denoted as property and equipment represent equity in such property and equipment.

Net assets with donor restrictions include amounts that the donor subjects to restrictions in perpetuity and amounts subject to legal or donor-imposed stipulations that may or will be met either by actions of the Organization and/or passage of time. Net assets with donor restrictions consist of the following at December 31, 2018.

	Membership Dues	Scholarships	Friendship Fund	MCI Fund	Life Memberships	Total
Balance at December 31, 2017	\$ 31,524	\$ 92,282	\$ 21,966	\$ 4,158	\$ 74,350	\$ 224,280
Membership Dues	89,852	-	-	-	4,750	94,602
Major Commission Initiative	-	-	-	1,000	-	1,000
Interest Allocation	-	908	-	58	-	966
Hawkins Scholarship	-	2,500	-	-	-	2,500
Farkas Scholarship	-	50	-	-	-	50
Friendship Project	-	-	1,940	-	-	1,940
Released from Restrictions	<u>(90,204)</u>	<u>(3,983)</u>	<u>(1,000)</u>	<u>-</u>	<u>(5,960)</u>	<u>(101,147)</u>
Balance at December 31, 2018	<u>\$ 31,172</u>	<u>\$ 91,757</u>	<u>\$ 22,906</u>	<u>\$ 5,216</u>	<u>\$ 73,140</u>	<u>\$ 224,191</u>

The changes have the following effect on net assets at December 31, 2017:

Unrestricted Net Assets	\$ 48,267	\$ -
Temporarily Restricted Net Assets	224,280	-
Net Assets Without Donor Restrictions	-	48,267
Net Assets With Donor Restrictions	-	224,280
Total Net Assets	<u>\$ 272,547</u>	<u>\$ 272,547</u>

International Horn Society

**Notes to the Financial Statements**

December 31, 2018

Note 3. NEW ACCOUNTING PRONOUNCEMENTS (Continued)

The financial statements include a new statement of Functional Expenses. Functional expenses are allocated to program related and administrative functions. Most expenses are allocated directly to the program or support services benefited. Certain expenses are allocated using a percentage base.

The financial statements include a new disclosure about liquidity and availability of resources (Note 7).

Note 4. INCOME TAXES

The Organization is exempt from Federal income taxes under *Section 501(c)(3)* of the Internal Revenue Code and applicable State law.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the combined financial statements. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the combined financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for the year 2018.

The Organization files its *Forms 990* in the U.S. Federal jurisdiction and the office of the State's Attorney General for the State of Illinois. The Organization is generally no longer subject to examination by the Internal Revenue Service for years before 2015.

Note 5. DONATED SERVICES

According to *FASB's ASC 958-605-30-10* "Revenue Recognition of Contributed Services, 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. The Organization benefits from a significant amount of volunteers whose services are essential to its operation but do not fit the definition above. For the years ended December 31, 2018 and 2017, the value of these services amount to approximately \$53,500 and \$51,700, respectively, which is not reflected in the financial statements.

Note 6. SUBSEQUENT EVENTS

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through May 29, 2019, the date the financial statements were available to be issued.

International Horn Society

**Notes to the Financial Statements**

December 31, 2018

Note 7. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Management's policy is to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

Financial Assets at December 31, 2018	\$ 275,923
Less those unavailable for general expenditures within one year due to:	
Accounts Payable	(1,083)
Restricted by donor with purpose restriction	<u>(224,191)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 50,649</u>

In addition to those resources, the Organization plans to continue collection efforts on \$31,001 in accounts receivable, which support operations without restrictions as to use.

Note 8. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU 2016-02, Leases, which supersedes FASB Accounting Standards Codification (ASC) Topic 840, Leases, and makes other conforming amendments to U.S. GAAP. ASU 2016-02, requires, among other changes to the lease accounting guidance, lessees to recognize most leases on the balance sheet via a right-of-use asset and lease liability as well as additional qualitative and quantitative disclosures. ASU 2016-02 is effective for the Organization's fiscal years beginning after December 15, 2019, but permits early adoption, and mandates a modified retrospective transition method. The provisions are effective for the Organization's year ending December 31, 2020. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements, but expects ASU 2016-02 will not add significant right-of-use assets and lease liabilities to the statement of financial position.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new standard amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The provisions are effective for the Organization's year ending December 31, 2019. The amendments should be applied using a retrospective transition method to each period presented. Management is currently evaluating the impact that the adoption of these provisions will have on the financial statements.