

**INTERNATIONAL HEARING
DOG, INC.**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2022

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

INTERNATIONAL HEARING DOG, INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

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TAYLORROTH

Certified Public Accountants

WORKING EXCLUSIVELY WITH NONPROFITS

February 2, 2023

Independent Auditors' Report

Board of Directors
International Hearing Dog Inc.
Henderson, Colorado

Opinion

We have audited the accompanying financial statements of International Hearing Dog Inc., (a Colorado nonprofit corporation), which comprise the statement of financial position as of September 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Hearing Dog Inc. as of September 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of International Hearing Dog Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about International Hearing Dog Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that,

individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 International Hearing Dog Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about International Hearing Dog Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited International Hearing Dog Inc.'s September 30, 2021, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 3, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Taylor Roth and Company PLLC

TAYLOR, ROTH AND COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
DENVER, COLORADO

INTERNATIONAL HEARING DOG, INC.
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2022
(WITH COMPARATIVE TOTALS FOR 2021)

	2022	2021
<u>Assets</u>		
Cash and cash equivalents	\$ 62,197	\$ 36,613
Accounts receivable	10,410	-
Grants receivable	45,000	50,000
Investments (Note 3)	1,077,255	1,538,127
Net property and equipment (Note 4)	169,847	182,573
Other assets	-	3,000
	\$ 1,364,709	\$ 1,810,313
<u>Liabilities and net assets</u>		
<u>Liabilities</u>		
Accounts payable	\$ 6,841	\$ 7,578
Accrued payroll costs	40,385	53,114
Line of credit (Note 5)	-	-
Commitment and contingency (Note 6)	-	-
	47,226	60,692
<u>Net assets</u>		
<u>Without donor restrictions</u>		
Undesignated	230,228	211,494
Board designated endowment	657,389	1,025,634
Capital campaign fund	419,866	512,493
	1,307,483	1,749,621
<u>With donor restrictions (Note 7)</u>	10,000	-
	1,317,483	1,749,621
	\$ 1,364,709	\$ 1,810,313

The accompanying notes are an integral part of these financial statements

INTERNATIONAL HEARING DOG, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2022
(WITH COMPARATIVE TOTALS FOR 2021)

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<u>Revenue and other support</u>				
Employee Retention Tax Credit (ERTC) (Note 8)	\$ 225,981	\$ -	\$ 225,981	\$ -
Foundations	173,051	10,000	183,051	196,184
Individuals	122,268	-	122,268	516,567
Earned income	30,160	-	30,160	-
Service clubs	28,920	-	28,920	19,446
Corporate contributions	3,367	-	3,367	5,957
Investment income(loss) (Note 3)	(272,872)	-	(272,872)	234,024
All other	2,095	-	2,095	2,986
In-kind (Note 9)	7,084	-	7,084	6,576
Total revenue and other support	<u>320,054</u>	<u>10,000</u>	<u>330,054</u>	<u>981,740</u>
<u>Expense</u>				
Program services	628,886	-	628,886	585,173
Supporting services				
Management and general	90,954	-	90,954	89,728
Fundraising	42,352	-	42,352	62,814
Total expense	<u>762,192</u>	<u>-</u>	<u>762,192</u>	<u>737,715</u>
Change in net assets	(442,138)	10,000	(432,138)	244,025
Net assets, beginning of year	<u>1,749,621</u>	<u>-</u>	<u>1,749,621</u>	<u>1,505,596</u>
Net assets, end of year	<u>\$ 1,307,483</u>	<u>\$ 10,000</u>	<u>\$ 1,317,483</u>	<u>\$ 1,749,621</u>

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, 2022
(WITH COMPARATIVE TOTALS FOR 2021)

	2022			2021	
	<u>Supporting services</u>				
	<u>Program</u> <u>expenses</u>	<u>Management</u> <u>and</u> <u>General</u>	<u>Fund-</u> <u>raising</u>	<u>Total</u>	<u>Total</u>
Salaries	\$ 427,869	\$ 23,770	\$ 23,771	\$ 475,410	\$ 444,873
Payroll taxes and benefits	79,871	4,437	4,437	88,745	79,625
Veterinarian care	26,739	-	-	26,739	22,153
Audit and accounting fees	-	26,415	-	26,415	26,614
Puppies (Note 10)	17,683	-	-	17,683	-
Repair and maintenance	16,410	1,235	-	17,645	16,661
Service dog placement	16,510	-	-	16,510	22,954
Insurance	5,860	9,634	562	16,056	8,134
Utilities	5,279	2,639	2,639	10,557	9,855
Dog food and supplies	12,806	-	-	12,806	21,406
IT support	5,633	704	704	7,041	8,030
Fundraising fees	-	-	5,985	5,985	12,860
Staff and volunteer development	5,317	-	-	5,317	7,627
Postage	2,486	915	1,832	5,233	4,010
Professional services	-	1,670	1,670	3,340	1,985
Office operations	-	3,069	-	3,069	7,728
Dog operations	2,929	-	-	2,929	9,519
Phone	1,046	523	523	2,092	7,101
Travel	-	-	-	-	4,143
Other expenses	2,448	1,021	229	3,698	6,473
	628,886	76,032	42,352	747,270	721,751
Depreciation	-	14,922	-	14,922	15,964
Total	<u>\$ 628,886</u>	<u>\$ 90,954</u>	<u>\$ 42,352</u>	<u>\$ 762,192</u>	<u>\$ 737,715</u>

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, 2022
(WITH COMPARATIVE TOTALS FOR 2021)

	<u>2022</u>	<u>2021</u>
<u>Cash flows from operating activities</u>		
Change in net assets	\$ (432,138)	\$ 244,025
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	14,922	15,964
Unrealized loss(gain) on investments	306,525	(212,713)
<u>Changes in operating assets and liabilities</u>		
(Increase)decrease in grants receivable	5,000	(5,000)
(Increase)decrease in accounts receivable	(10,410)	-
(Increase)decrease in inventory	-	13,508
(Increase)decrease in other assets	3,000	(3,000)
Increase(decrease) in accounts payable	(737)	(568)
Increase(decrease) in payroll accruals	(12,729)	20,435
Net cash (used)provided by operating activities	<u>(126,567)</u>	<u>72,651</u>
<u>Cash flows from investing activities</u>		
(Purchases) of investments	(10,000)	(606,759)
(Reinvestment) of earnings	(33,653)	(21,304)
Proceeds from investments	198,000	520,000
(Purchases) of fixed assets	(2,196)	(32,361)
Net cash provided(used) by investing activities	<u>152,151</u>	<u>(140,424)</u>
Net increase(decrease) in cash and cash equivalents	25,584	(67,773)
Cash and cash equivalents, beginning of year	<u>36,613</u>	<u>104,386</u>
Cash and cash equivalents, end of year	<u>\$ 62,197</u>	<u>\$ 36,613</u>
<u>Supplemental disclosure of information</u>		
Cash paid during the period for interest	<u>\$ 1,160</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements

INTERNATIONAL HEARING DOG, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2022

NOTE 1 - NATURE OF ACTIVITIES

International Hearing Dog, Inc. (the Organization) was established for the purpose of training and placing hearing dogs with d/Deaf individuals, with or without multiple handicaps, at no charge to the recipient. The Organization's mission is to empower d/Deaf and hard of hearing individuals by purposefully training specially selected dogs to alert to sounds, carefully matching these dogs with d/Deaf and hard of hearing handlers and supporting the paired teams throughout a lifetime of the match. The Organization operates the following major programs:

Dog Training – Intentionally designed and extensively focused sound and behavior training for dogs.

Education – Comprehensive training of the d/Deaf or hard of hearing handler.

Team Training – Intense dog and handler team training with Public Access and Sound Alert Testing. Teams participate in ongoing skill development work to earn full certification status and perform virtual work with the Organization's staff for annual recertification and public and sound work best practices for the life of the match.

Volunteer Program – Volunteers play an essential role in the success of the Organization. The Organization offers a wide variety of volunteer opportunities for teenagers to retirees.

Outreach and Education – The Organization's outreach and educational awareness programs seek to inform and inspire d/Deaf audiences, and the general public, about International Hearing Dogs mission-driven work and the hearing dog's role.

The Organization is supported primarily through foundations, special events, and individual donations.

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 financial statements of the Organization have been prepared in accordance with U.S. generally accepted accounting principles which require the Organization to report its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and board of directors.

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

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Contributions of property and equipment or cash restricted to acquisition of property and equipment are reported as net assets with donor restrictions if the donor has restricted the use of the property or equipment to a particular program. These restrictions expire when the assets are placed in service.

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, except for those amounts that are held in the investment portfolio, which are invested for long term purposes.

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.

5. 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.

6. 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.

7. 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.

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

8. Functional Reporting of Expenses

For the year ended September 30, 2022, 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. The significant expenses allocated are salaries and payroll taxes, which are allocated based on time and effort. Dog delivery and supplies, dog operations and utilities are allocated assigned directly to the program or functional area benefited.

9. 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).

10. 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, 2021, from which the summarized information was derived.

11. Revenue and Revenue Recognition

The Organization recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received; conditional promises to give with a measurable performance barrier and a right of return are not recognized until the conditions on which they depend have been met.

12. Subsequent Events

Management has evaluated subsequent events through February 2, 2023, the date the financial statements were available to be issued and found no events that would materially alter the results presented herein.

NOTE 3 - INVESTMENTS – BOARD DESIGNATED ENDOWMENT AND CAPITAL CAMPAIGN FUND

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

<u>Description</u>	<u>Fair Value</u>
Stocks and bonds	\$ 411,932
US equities	217,811
Fixed income	211,558
Non-US equities	123,719
Cash and cash alternatives	70,988
Real estate and tangibles	36,358
Non-classified	<u>4,889</u>
Total	<u>\$ 1,077,255</u>

Investment gain (loss) is summarized as follows:

<u>Description</u>	<u>Amount</u>
Net realized and unrealized gain(loss) on investments	\$ (306,525)
Interest and dividend income	44,552
Less management fees	<u>(10,899)</u>
Net investment return(loss)	<u>\$ (272,872)</u>

Annually, the board of directors determines the allocation of funds for operations. Changes in board designated net assets for the year ended September 30, 2022 consisted of:

<u>Description</u>	<u>Amount</u>
Balance, beginning of year	\$ 1,538,127
Additions	10,000
Withdrawals	(198,000)
Net investment return	<u>(272,872)</u>
Balance, end of year	<u>\$ 1,077,255</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

<u>Description</u>	<u>Amount</u>
Buildings and improvements	\$ 242,262
Leasehold improvements	63,526
Office equipment	31,162
Kennels	<u>9,760</u>
Total	346,710
Accumulated depreciation	<u>(176,863)</u>
Net property and equipment	<u>\$ 169,847</u>

Depreciation expense for the current year was \$14,922.

NOTE 5 - LINE OF CREDIT

The Organization has a \$450,000 securities-based line of credit (LOC) with an interest rate of 3.15%. During the fiscal year, the Organization borrowed \$114,159 from the LOC and repaid the drawdown in its entirety before year-end. The Organization incurred interest expense of \$1,160.

NOTE 6 - 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 7 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purpose:

<u>Description</u>	<u>Amount</u>
Van purchase	<u>\$ 10,000</u>

NOTE 8 - EMPLOYEE RETENTION TAX CREDIT (ERTC)

The Employee Retention Credit (ERTC) under the CARES Act is a refundable tax credit against certain employment taxes equal to 50% of the qualified wages an eligible employer pays to employees after March 12, 2020, and before January 1, 2021. The ERTC was modified under the March 2021 American Rescue Plan (ARP) Act. The ARP Act expanded the credit to 70% of qualified wages paid in 2021. During the year, the Organization filed a 941X for the quarters 2, 3, and 4 2020 and quarters 1, 2, and 3 2021 and received an ERTC in the amount of \$225,981.

NOTE 9 - IN-KIND

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>
Donated puppies (valued at \$2,500 per puppy)	\$ 5,000
Dog food (valued at \$48/bag)	1,584
Discount on puppy purchase (valued at \$500)	<u>500</u>
Total	<u>\$ 7,084</u>

No amounts have been reflected in the financial statements for donated services not requiring specific expertise. However, during the year, 58 volunteers donated 47,630 hours of non-professional level service.

NOTE 10 - PUPPIES

The Organization's hearing dogs come from shelters, rescues, collaborating service dog programs, breeders, and even individuals. The Puppies expense consists primarily of the costs attributed to the acquisition of puppies from breeders, shelters, etc.

NOTE 11 - PENSION PLAN

The Organization has a SIMPLE IRA plan covering all eligible employees. The Organization matches contributions up to 3% of the employee's salary. Total pension expense for the current year was \$8,843.

NOTE 12 - 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. Management and the board review their strategic plan and approve withdrawals for general operations as needed.

NOTE 13 - AVAILABILITY AND LIQUIDITY

The following represents financial assets available for general operating expenditures within one year at September 30, 2022:

Financial assets at year-end:	<u>Amount</u>
Cash and cash equivalents	\$ 62,197
Grants receivable	45,000
Accounts receivable	10,410
Investments	<u>1,077,255</u>
Total financial assets	1,199,862
Less: amounts not available for general expenditures within one year, due to:	
Board designated endowment (less 2023 distribution)	(587,389)
Capital campaign fund	<u>(419,866)</u>
Financial assets available to meet general operating expenditures within one year	<u>\$ 192,607</u>

The Organization's goal is to maintain available financial assets sufficient to meet five months of general operating expenses (approximately \$223,000 per 2023 budgeted expenses). Management and the board reviewed their 2023 budget and voted to allow a maximum \$70,000 withdrawal from the endowment during fiscal year 2023. The Organization does not anticipate withdrawing any money from the capital campaign fund account. Management considers donor restricted contributions that will be used within one year as part of ordinary operations, as being available for general expenditures.