

HEARING HEALTH FOUNDATION
FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR 2018)

HEARING HEALTH FOUNDATION

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors of
Hearing Health Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Hearing Health Foundation (the Foundation), which comprise the statement of financial position as of September 30, 2019 and the related statements of activities and changes 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.

Auditors' 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 auditors' 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 Hearing Health Foundation as of September 30, 2019, 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 Hearing Health Foundation's 2018 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated February 1, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Marcum LLP

Hartford, CT
December 20, 2019

HEARING HEALTH FOUNDATION

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2019 AND 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 282,369	\$ 1,050,445
Advertising and other receivables	--	46,825
Pledges receivable	--	55,000
Prepaid expense and deposits	<u>69,443</u>	<u>79,714</u>
Total Current Assets	<u>351,812</u>	<u>1,231,984</u>
Investments	8,045,170	7,453,323
Property and equipment, net	<u>15,257</u>	<u>10,138</u>
Total Assets	<u><u>\$ 8,412,239</u></u>	<u><u>\$ 8,695,445</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 38,700	\$ 41,740
Grants payable	659,088	803,250
Deferred revenue	<u>3,600</u>	<u>21,400</u>
Total Current Liabilities	<u>701,388</u>	<u>866,390</u>
Net Assets		
Without donor restrictions	2,633,320	2,382,139
With donor restrictions	<u>5,077,531</u>	<u>5,446,916</u>
Total Net Assets	<u>7,710,851</u>	<u>7,829,055</u>
Total Liabilities and Net Assets	<u><u>\$ 8,412,239</u></u>	<u><u>\$ 8,695,445</u></u>

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

HEARING HEALTH FOUNDATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED SEPTEMBER 30, 2019

**(WITH SUMMARIZED COMPARATIVE INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2018)**

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenue and Support				
Contributions	\$ 829,833	\$ 972,828	\$ 1,802,661	\$ 1,774,098
Publishing	149,340	--	149,340	225,591
Interest and dividends, net of fees of \$46,499 and \$47,688 in 2019 and 2018	206,486	10,878	217,364	228,479
Realized and unrealized gains on investments	179,644	8,192	187,836	1,017
Other income	42,237	--	42,237	67,851
Net assets released from restrictions	<u>1,361,283</u>	<u>(1,361,283)</u>	<u>--</u>	<u>--</u>
Total Revenue and Support	<u>2,768,823</u>	<u>(369,385)</u>	<u>2,399,438</u>	<u>2,297,036</u>
Expenses				
Program services	2,338,503	--	2,338,503	1,962,626
Management and general	79,787	--	79,787	78,941
Fundraising	<u>99,352</u>	<u>--</u>	<u>99,352</u>	<u>125,697</u>
Total Expenses	<u>2,517,642</u>	<u>--</u>	<u>2,517,642</u>	<u>2,167,264</u>
Change in Net Assets	251,181	(369,385)	(118,204)	129,772
Net Assets - Beginning	<u>2,382,139</u>	<u>5,446,916</u>	<u>7,829,055</u>	<u>7,699,283</u>
Net Assets - End	<u>\$ 2,633,320</u>	<u>\$ 5,077,531</u>	<u>\$ 7,710,851</u>	<u>\$ 7,829,055</u>

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

HEARING HEALTH FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2019

**(WITH SUMMARIZED COMPARATIVE INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2018)**

	Program Services					Management and General	Fundraising	2019 Total	2018 Total
	Research Grants	Magazine Management	Communication and Education	Hearing Restoration Project	Total				
Salaries	\$ 82,299	\$ 102,874	\$ 102,874	\$ 61,725	\$ 349,772	\$ 41,150	\$ 20,575	\$ 411,497	\$ 457,504
Payroll taxes and benefits	20,794	25,992	25,992	15,595	88,373	10,397	5,198	103,968	90,597
Grants and allocations awarded	457,129	--	--	785,111	1,242,240	--	--	1,242,240	918,220
Outreach	--	--	--	--	--	--	--	--	5,983
Consultants	14,508	38,689	9,672	9,672	72,541	4,836	19,344	96,721	37,177
Honoraria	--	--	--	35,000	35,000	--	--	35,000	35,000
Professional fees	16,764	11,771	7,403	17,834	53,772	9,274	8,560	71,606	82,516
Bank, credit card and other fees	2,094	1,256	837	2,931	7,118	--	1,256	8,374	9,821
Database	2,938	11,751	2,938	2,938	20,565	1,469	7,869	29,903	29,386
Insurance	2,248	2,810	2,810	2,248	10,116	562	562	11,240	8,434
Marketing and promotional materials	17	108	333	83	541	--	6,724	7,265	10,427
Registrations and state filings	--	--	--	--	--	694	9,218	9,912	12,984
Website	--	190	218	--	408	--	136	544	3,123
Editorial, artwork and design	--	75,000	--	--	75,000	--	--	75,000	50,645
Dues and subscriptions	499	1,997	499	499	3,494	250	1,248	4,992	4,003
Computer expenses	1,412	1,765	1,765	1,412	6,354	353	353	7,060	22,602
Storage	48	60	60	48	216	12	12	240	500
Supplies	2,618	3,273	3,340	2,618	11,849	655	655	13,159	14,850
Telephone/internet	1,201	1,501	1,501	1,201	5,404	300	300	6,004	9,600
Printing and reproduction	--	62,138	3,679	--	65,817	320	3,679	69,816	73,484
Occupancy	33,727	42,159	42,159	33,728	151,773	8,432	8,432	168,637	148,956
Postage and shipping	--	90,838	3,685	--	94,523	320	3,685	98,528	85,062
Travel	6,392	542	1,844	24,981	33,759	326	868	34,953	38,299
Conferences/conventions/meetings	830	242	891	2,657	4,620	145	386	5,151	13,531
Depreciation	612	765	765	612	2,754	153	153	3,060	2,160
Other expenses	551	694	694	555	2,494	139	139	2,772	2,400
	<u>\$ 646,681</u>	<u>\$ 476,415</u>	<u>\$ 213,959</u>	<u>\$ 1,001,448</u>	<u>\$ 2,338,503</u>	<u>\$ 79,787</u>	<u>\$ 99,352</u>	<u>\$ 2,517,642</u>	<u>\$ 2,167,264</u>

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

HEARING HEALTH FOUNDATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	\$ (118,204)	\$ 129,772
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Realized and unrealized gains on investments	(187,836)	(1,017)
Depreciation	3,060	2,160
Changes in operating assets and liabilities:		
Advertising and other receivables	46,825	(40,666)
Pledges receivable	55,000	(30,000)
Prepaid expenses and deposits	10,271	5,025
Accounts payable and accrued expenses	(3,040)	(45,624)
Grants payable	(144,162)	(934,857)
Deferred revenue	(17,800)	(15,925)
Deferred rent	--	(6,109)
Net Cash Used in Operating Activities	<u>(355,886)</u>	<u>(937,241)</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(8,179)	(7,661)
Purchases of investments	(873,388)	(56,930)
Proceeds from sales of investments	<u>469,377</u>	<u>433,397</u>
Net Cash (Used in) Provided by Investing Activities	<u>(412,190)</u>	<u>368,806</u>
Net Change in Cash and Cash Equivalents	(768,076)	(568,435)
Cash and Cash Equivalents - Beginning	<u>1,050,445</u>	<u>1,618,880</u>
Cash and Cash Equivalents - End	<u>\$ 282,369</u>	<u>\$ 1,050,445</u>

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

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Hearing Health Foundation (the Foundation) is a New York not-for-profit corporation that furthers research in the causes, treatments and prevention of deafness and other hearing disorders. In 2011, the Foundation changed its name from Deafness Research Foundation to Hearing Health Foundation.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ADOPTION OF ACCOUNTING GUIDANCE

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. The ASU addresses the complexity and understandability of net asset classification, and consistency in information about liquidity and availability of resources, expenses, and investment return. The major changes of the ASU affecting the Foundation include (a) requiring the presentation of two classes of net assets entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) requiring the qualitative and quantitative information regarding the liquidity and availability of resources, and (c) enhanced disclosures regarding functional expense reporting. ASU 2016-14 has been applied retrospectively to all periods presented. The application of the ASU did not affect the change in net assets for the years ended September 30, 2019 and 2018.

BASIS OF ACCOUNTING AND PRESENTATION

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual events and results could differ from those assumptions and estimates.

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NET ASSETS

The Foundation follows the provisions of FASB ASC 958, Not-for-Profit Entities. FASB ASC 958 establishes standards for external financial reporting by not-for-profit organizations. Resources are reported for accounting purposes, in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics are combined into the following categories:

Net Assets Without Donor Restrictions – Net assets without donor restrictions consist of the net assets over which the governing board has control to use in carrying out the operations of the Foundation in accordance with its by-laws and are not restricted by donor-imposed restrictions.

Net Assets With Donor Restrictions – Net assets with donor restrictions consist of net assets whose use is limited by donor-imposed restrictions which either expire with the passage of time (time restriction) or can be fulfilled and removed by actions of the Foundation pursuant to the restrictions (purpose restrictions). When donor-imposed restrictions expire, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statement of activities and changes in net assets as net assets released from restrictions. In addition, net assets that represent contributions that are limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the actions of the Foundation are also included within net assets with donor restrictions.

PRIOR YEAR SUMMARIZED COMPARATIVE 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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Foundation's audited financial statements as of and for the year ended September 30, 2018, from which the summarized comparative information was derived.

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

The Foundation considers all highly liquid investments, including money market funds with a maturity date of three months or less from the date of purchase, to be cash equivalents. The Foundation's deposits in financial institutions may, at times, exceed federally insured limits. The Foundation has not experienced any losses in such accounts. The Board of Directors and Finance Committee believes that these deposits are not subject to significant credit risk.

INVESTMENT VALUATION AND INCOME RECOGNITION

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Purchases and sales of securities are recorded on the trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net realized and unrealized (losses) gains on investments includes the Foundation's gains and losses on investments bought and sold as well as held during the year. Realized and unrealized gains and losses on these investments are reported in the statements of activities and changes in net assets as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law.

Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with investments, it is at least reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the financial statements.

As further discussed in Note 6, a permanent endowment was established by donor-restricted contributions to the Foundation with the restriction not to distribute any portion of the principal contributed. At times the Foundation may hold investments in excess of amounts restricted and all investments held, with and without donor-restriction, are categorized as investments on the statements of financial position.

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENT VALUATION AND INCOME RECOGNITION (CONTINUED)

The Board of Directors has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment income while seeking to preserve the endowment corpus. Endowment assets include those assets of donor-restricted funds that the Foundation holds in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a prudent manner that is intended to stress safety and strive for growth.

The endowment is held in one or more accounts in the name of the Foundation, but segregated from those accounts used to support its operations.

CONTRIBUTIONS

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value only when the conditions on which they depend are substantially met and the promises become unconditional.

The gifts are reported as donor restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, donor restricted net assets are reclassified as net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions unless the restriction relates to long-lived assets. When long-lived assets are placed in service, thus satisfying purpose restrictions, the amount is included as a change in net assets, with donor restrictions and without donor restrictions in the statements of activities and changes in net assets.

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY AND EQUIPMENT

Property and equipment are carried at cost, net of accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from three to six years.

The Foundation's capitalization threshold is \$1,000 with a projected useful life exceeding one year. Additions and improvements which extend the life of the assets are capitalized, and normal repairs and maintenance are charged to current operations. The costs and related accumulated depreciation of assets retired or disposed of are removed from the related accounts and the resulting gain or loss is reflected in income.

IN-KIND CONTRIBUTIONS

Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, and are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

The Foundation has many dedicated volunteers who have donated numerous hours of service in fundraising and community related activities. Because most of those donated services do not meet the recognition criteria, such services have not been recognized as contributions and expense in the Foundation's financial statements.

FUNCTIONAL EXPENSE ALLOCATIONS

The costs of providing the various programs and other activities of the Foundation have been summarized on a functional basis in the accompanying statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management based on estimated level of effort for salaries and related expenses and the estimated value of the benefit received for all other expenses.

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ADVERTISING RECEIVABLE

The Foundation is the owner of "Hearing Health Magazine" and during 2019 and 2018, engaged an outside consultant in the solicitation and sale of advertising space as well as the advancement and promotion of this magazine. Publishing income is recognized from advertisements when published after deduction of commissions. Amounts received prior to the advertisements being published are deferred until the publication date.

PROMISES TO GIVE

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. Conditional promises to give are recognized when the conditions on which they depend are substantially met. There were no conditional promises recorded as of September 30, 2019 and 2018.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

In evaluating the collectability of accounts receivable, the Foundation analyzes and identifies trends for each of its sources of revenue to estimate the appropriate allowance for uncollectible accounts. It is the Foundation's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

INCOME TAXES

The Foundation is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Management has analyzed the tax positions taken and has concluded that as of September 30, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 20, 2019, which is the date these financial statements were available to be issued. There have been no subsequent events that would require adjustment to, or disclosure in, the financial statements.

NOTE 2 - FAIR VALUE MEASUREMENTS

U.S. GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

The fair value measurement level of the asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for financial instruments measured at fair value.

Money Market Funds, Mutual and Exchange Traded Funds – Money market, mutual and exchange traded funds are valued at the daily closing price as reported by the fund. The mutual and exchange traded funds held by the Foundation are deemed to be actively traded. Mutual and exchange traded funds held by the Foundation are open-ended funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price.

Corporate Bonds - Valued using recently executed transactions, market price quotations (where observable), bond spreads or other available data. When observable price quotations are not available, fair value is determined based on cash flow models with yield curves, bond swap spreads, and other available inputs.

There have been no changes in the methodologies used at September 30, 2019 and 2018.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of September 30, 2019:

Description	2019		Total
	Level 1	Level 2	
Money market funds	\$ 706,492	\$ --	\$ 706,492
Mutual and exchange traded funds	5,488,239	--	5,488,239
Corporate bonds	--	1,850,439	1,850,439
	<u>\$ 6,194,731</u>	<u>\$ 1,850,439</u>	<u>\$ 8,045,170</u>

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of September 30, 2018:

Description	2018		Total
	Level 1	Level 2	
Mutual and exchange traded funds	\$ 5,303,345	\$ --	\$ 5,303,345
Corporate bonds	<u>--</u>	<u>2,149,978</u>	<u>2,149,978</u>
	<u>\$ 5,303,345</u>	<u>\$ 2,149,978</u>	<u>\$ 7,453,323</u>

There were no transfers between levels of investments during the years ended September 30, 2019 and 2018.

FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

The carrying amounts of cash and cash equivalents, accounts receivable, pledges receivable, prepaid expenses and other assets and accounts payable approximate their fair value because of the short-term nature of these instruments.

NOTE 3 - PLEDGES RECEIVABLE

Pledges receivable of \$55,000 for the year ended September 30, 2018 were due within the next year. As of September 30, 2019, there are no pledges receivable.

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at September 30:

	2019	2018
Furniture and equipment	\$ 72,460	\$ 64,209
Accumulated depreciation	<u>(57,203)</u>	<u>(54,071)</u>
	<u>\$ 15,257</u>	<u>\$ 10,138</u>

NOTE 5 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with restrictions represent contributions, gifts, and income from investments that can be used for the purpose specified by the donor, and endowment investments. These donor-restricted endowment funds and contributions to the endowment fund are restricted in perpetuity. Any income earned on the endowment fund investments is considered with donor restrictions until distributed to the Foundation to support general operations. The endowment corpus from the funds provides investment income to fund the various programs and research noted below.

	2019	2018
Purpose restrictions:		
Emerging Research Grants	<u>\$ 110,745</u>	<u>\$ 480,130</u>
Total net assets with purpose restrictions	<u>110,745</u>	<u>480,130</u>
Held in perpetuity:		
Hearst Endowed Otological Fellowship	200,000	200,000
C.H.E.A.R Endowment Grant	118,768	118,768
The Livermore Fund	<u>4,648,018</u>	<u>4,648,018</u>
Total net assets held in perpetuity	<u>4,966,786</u>	<u>4,966,786</u>
Total net assets with donor restrictions	<u>\$ 5,077,531</u>	<u>\$ 5,446,916</u>

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

NOTE 5 - NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

	2019	2018
Purpose restrictions		
Hearing Restoration Project	\$ 574,314	\$ 504,851
Hearing Restoration Project (California)	5,000	5,000
General research (Minnesota)	--	10,000
General research (Texas)	2,500	5,000
General research (Massachusetts)	--	10,000
Emerging Research Grants - Usher Syndrome	8,435	--
Research - general	148,847	110,944
Education programs	1,315	1,150
Emerging Research Grants	426,127	107,572
Emerging Research Grants - Meniere's Disease	54,760	150,927
Emerging Research Grants - Hyperacusis	1,000	46,500
Emerging Research Grants - Tinnitus Research	3,985	43,456
Emerging Research Grants - Central Auditory Processing Disorder	120,000	120,030
General purpose - office equipment	--	11,000
Child research	15,000	--
	<u>\$ 1,361,283</u>	<u>\$ 1,126,430</u>

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

NOTE 6 - ENDOWMENTS

INTERPRETATION OF RELEVANT LAW

The Board of Directors of the Foundation has interpreted relevant law to require the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified as donor restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by relevant law.

RETURN OBJECTIVES AND RISK PARAMETERS

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide capital preservation and total return. The overall rate of return objective of the portfolio shall be a reasonable “real” rate that is consistent with the risk levels.

STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES

To satisfy its long-term rate objectives within the established risk parameters the Foundation’s assets are divided into three major asset classes consisting of cash, corporate bonds, and mutual funds and exchange traded funds.

SPENDING POLICY

Spending policy will be at the discretion of the Board of Directors of the Foundation as determined by the governing documents for the various restricted funds that make up the portfolio and applicable federal and state laws.

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

NOTE 6 - ENDOWMENTS (CONTINUED)

CHANGES IN ENDOWMENT

The changes in endowment funds for the year ended September 30, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, October 1, 2018	\$ 491,119	\$ 4,989,743	\$ 5,480,862
Interest and dividends, net	--	10,878	10,878
Investment appreciation (depreciation)	<u>114,720</u>	<u>8,192</u>	<u>122,912</u>
Balance, September 30, 2019	<u>\$ 605,839</u>	<u>\$ 5,008,813</u>	<u>\$ 5,614,652</u>

The changes in endowment funds for the year ended September 30, 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, September 30, 2017	\$ 450,347	\$ 4,989,224	\$ 5,439,571
Interest and dividends, net	--	8,249	8,249
Investment appreciation (depreciation)	<u>40,772</u>	<u>(7,730)</u>	<u>33,042</u>
Balance, September 30, 2018	<u>\$ 491,119</u>	<u>\$ 4,989,743</u>	<u>\$ 5,480,862</u>

Endowment funds at September 30 consist of the following:

	2019	2018
Cash and cash equivalents	\$ 315,008	\$ 244,639
Corporate bonds	727,269	797,895
Mutual and exchange traded funds	<u>4,572,375</u>	<u>4,438,328</u>
	<u>\$ 5,614,652</u>	<u>\$ 5,480,862</u>

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

NOTE 6 - ENDOWMENTS (CONTINUED)

FUNDS WITH DEFICIENCIES

Due to unfavorable market fluctuations from time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor required the Foundation to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported as net assets without donor restrictions. There was no deficit for the years ended September 30, 2019 and 2018.

NOTE 7 - RETIREMENT PLAN

Effective September 12, 2016, all employees of the Foundation are eligible to participate in the Foundation's sponsored 403(b) plan. During 2016, the Board of Directors approved an employer match for any contributing employee that has been employed by the Foundation for a minimum of six months of up to \$3,000 of employee contributions per year. During 2019 and 2018, there were seven and five contributing employees to the plan and the employer match was \$10,839 and \$11,817, respectively, which has been included as part of payroll taxes and benefits on the accompanying statements of functional expenses.

NOTE 8 - LEASE COMMITMENTS

In 2011, the Foundation entered into a lease agreement for office space which, in November 2017, was extended for one year with terms unchanged through March 31, 2019. The lease provides for one month of free rent and scheduled increases in base rent. Rent expense is charged to operations ratably over the term of the lease which results in deferred rent. The deferred rent is the cumulative rent expense charged to operations from inception of the lease in excess of required lease payments. In October 2018, the lease was extended for one more year through March 31, 2020 with an annual rent of \$148,200 and an increase in the security deposit held to \$24,700, all other terms remain unchanged.

Total rent expense incurred during 2019 and 2018 was \$155,635 and \$134,918, respectively, which includes shared expenses.

Future minimum rental payments under this operating lease are \$74,100 for the year ending September 30, 2020.

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

NOTE 8 - LEASE COMMITMENTS (CONTINUED)

During 2016, the Foundation decided to allow the Children's Hearing Institute (CHI), an independent not for profit, to share office space. In return, CHI paid for a grant to fund research focused on improving children's hearing. The money given to research was \$15,000 and \$25,000 during the years ended September 30, 2019 and 2018, respectively, and is included in contributions on the statements of activities and changes in net assets. In addition, \$36,000 was received from CHI during each of the years ended September 30, 2019 and 2018, for monthly shared office space that will also be used to fund research and is included in other income on the statements of activities and changes in net assets.

NOTE 9 - LIQUIDITY AND AVAILABILITY OF RESOURCES

The Foundation's primary sources of support are contributions received from donors. Financial assets in excess of operational requirements are invested in money market funds and other short-term investments.

The following table reflects the Foundation's available financial assets as of September 30, 2019 and 2018. None of the financial assets included within the table are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

	2019	2018
Cash and cash equivalents	\$ 214,886	\$ 805,806
Accounts receivable	--	101,825
Investments not subject to restrictions	<u>3,225,270</u>	<u>3,014,995</u>
	<u>\$ 3,440,156</u>	<u>\$ 3,922,626</u>

The Foundation monitors its liquidity in order to meet operating needs, contractual commitments and other obligations as they come due.