

HEARING HEALTH FOUNDATION

FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

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 statements of financial position as of September 30, 2021 and 2020, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Marcum LLP

Hartford, CT
January 11, 2022

HEARING HEALTH FOUNDATION

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2021 AND 2020

	2021	2020
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,455,276	\$ 995,791
Advertising and other receivables	27,530	17,550
Pledges receivable, current portion	575,500	222,500
Prepaid expense and deposits	105,445	52,810
Total Current Assets	<u>2,163,751</u>	<u>1,288,651</u>
Investments	8,841,932	7,688,419
Beneficial interest in charitable remainder unitrust	246,538	--
Pledges receivable, net of current portion	1,035,426	--
Property and equipment, net	56,593	73,579
Total Assets	<u>\$ 12,344,240</u>	<u>\$ 9,050,649</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 82,212	\$ 54,499
Securities payable	--	79,853
Deferred rent	31,516	--
Total Current Liabilities	<u>113,728</u>	<u>134,352</u>
Paycheck Protection Program loan	--	116,827
Net Assets		
Without donor restrictions	4,661,273	3,059,557
With donor restrictions	7,569,239	5,739,913
Total Net Assets	<u>12,230,512</u>	<u>8,799,470</u>
Total Liabilities and Net Assets	<u>\$ 12,344,240</u>	<u>\$ 9,050,649</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 YEARS ENDED SEPTEMBER 30, 2021 AND 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support						
Contributions	\$ 1,741,166	\$ 3,103,479	\$ 4,844,645	\$ 876,197	\$ 1,586,576	\$ 2,462,773
Publishing	110,400	--	110,400	90,140	--	90,140
Interest and dividends, net of fees of \$37,398 and \$38,855 in 2021 and 2020	181,135	--	181,135	200,434	--	200,434
Realized and unrealized gains (loss) on investments	915,980	8,084	924,064	(84,261)	(2,660)	(86,921)
Other income	--	--	--	24,360	--	24,360
Net assets released from restrictions	<u>1,282,237</u>	<u>(1,282,237)</u>	<u>--</u>	<u>921,534</u>	<u>(921,534)</u>	<u>--</u>
Total Revenue and Support	<u>4,230,918</u>	<u>1,829,326</u>	<u>6,060,244</u>	<u>2,028,404</u>	<u>662,382</u>	<u>2,690,786</u>
Expenses						
Program services	2,428,901	--	2,428,901	1,386,259	--	1,386,259
Management and general	106,076	--	106,076	103,069	--	103,069
Fundraising	<u>211,052</u>	<u>--</u>	<u>211,052</u>	<u>112,839</u>	<u>--</u>	<u>112,839</u>
Total Expenses	<u>2,746,029</u>	<u>--</u>	<u>2,746,029</u>	<u>1,602,167</u>	<u>--</u>	<u>1,602,167</u>
Change in Net Assets from Operations	<u>\$ 1,484,889</u>	<u>\$ 1,829,326</u>	<u>\$ 3,314,215</u>	<u>\$ 426,237</u>	<u>\$ 662,382</u>	<u>\$ 1,088,619</u>

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

HEARING HEALTH FOUNDATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)

FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Paycheck Protection Program Loan Forgiveness	\$ 116,827	\$ --	\$ 116,827	\$ --	\$ --	\$ --
Total Nonoperating Revenues	<u>116,827</u>	<u>--</u>	<u>116,827</u>	<u>--</u>	<u>--</u>	<u>--</u>
Change in Net Assets	1,601,716	1,829,326	3,431,042	426,237	662,382	1,088,619
Net Assets - Beginning	<u>3,059,557</u>	<u>5,739,913</u>	<u>8,799,470</u>	<u>2,633,320</u>	<u>5,077,531</u>	<u>7,710,851</u>
Net Assets - End	<u>\$ 4,661,273</u>	<u>\$ 7,569,239</u>	<u>\$ 12,230,512</u>	<u>\$ 3,059,557</u>	<u>\$ 5,739,913</u>	<u>\$ 8,799,470</u>

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

HEARING HEALTH FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Program Services					Management and General	Fundraising	Total
	Research Grants	Magazine Management	Communication and Education	Hearing Restoration Project	Total			
Salaries	\$ 89,525	\$ 149,208	\$ 149,208	\$ 89,525	\$ 477,466	\$ 59,684	\$ 59,683	\$ 596,833
Payroll taxes and benefits	27,596	34,495	34,495	20,697	117,283	13,798	6,899	137,980
Grants and allocations	297,777	--	--	729,656	1,027,433	--	--	1,027,433
Consultants	938	2,502	625	625	4,690	313	1,251	6,254
Honoraria	6,000	--	--	38,750	44,750	--	--	44,750
Professional fees	20,890	22,238	185,193	33,694	262,015	17,521	83,538	363,074
Bank, credit card and other fees	5,589	1,839	1,839	3,065	12,332	--	2,294	14,626
Database	4,218	16,872	4,218	4,218	29,526	2,109	11,816	43,451
Insurance	1,827	2,284	2,284	1,827	8,222	457	457	9,136
Marketing and promotional materials	28	184	41,868	141	42,221	--	1,522	43,743
Registrations and state filings	--	--	--	--	--	856	11,375	12,231
Website	--	6,870	7,852	--	14,722	--	4,907	19,629
Editorial, artwork and design	--	107,806	--	--	107,806	--	--	107,806
Dues and subscriptions	1,146	4,585	1,146	1,146	8,023	573	2,866	11,462
Computer expenses	934	1,168	1,168	934	4,204	234	234	4,672
Storage	60	76	76	60	272	15	15	302
Supplies	1,986	2,483	2,483	1,986	8,938	497	497	9,932
Telephone/internet	916	1,145	1,145	916	4,122	229	229	4,580
Printing and reproduction	--	48,582	5,951	--	54,533	517	6,525	61,575
Occupancy	32,239	40,299	40,299	32,239	145,076	8,060	8,060	161,196
Postage and shipping	--	33,121	1,125	--	34,246	98	1,125	35,469
Travel	316	158	1,601	1,740	3,815	158	6,769	10,742
Conferences/conventions/meetings	65	32	97	356	550	32	65	647
Depreciation	3,397	4,247	4,247	3,397	15,288	849	849	16,986
Other expenses	304	380	380	304	1,368	76	76	1,520
	<u>\$ 495,751</u>	<u>\$ 480,574</u>	<u>\$ 487,300</u>	<u>\$ 965,276</u>	<u>\$ 2,428,901</u>	<u>\$ 106,076</u>	<u>\$ 211,052</u>	<u>\$ 2,746,029</u>

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

HEARING HEALTH FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Program Services					Management and General	Fundraising	Total
	Research Grants	Magazine Management	Communication and Education	Hearing Restoration Project	Total			
Salaries	\$ 122,206	\$ 152,758	\$ 152,758	\$ 91,655	\$ 519,377	\$ 61,103	\$ 30,552	\$ 611,032
Payroll taxes and benefits	30,191	37,738	37,738	22,643	128,310	15,095	7,548	150,953
Grants and allocations awarded	--	--	--	155,663	155,663	--	--	155,663
Consultants	1,278	3,408	852	852	6,390	426	1,704	8,520
Honoraria	--	--	--	40,000	40,000	--	--	40,000
Professional fees	29,198	20,500	12,424	31,061	93,183	16,152	36,884	146,219
Bank, credit card and other fees	3,802	1,489	993	3,475	9,759	--	1,489	11,248
Database	2,589	10,355	2,589	2,589	18,122	1,294	6,472	25,888
Insurance	1,690	2,112	2,112	1,690	7,604	422	422	8,448
Marketing and promotional materials	19	124	383	96	622	--	335	957
Registrations and state filings	--	--	--	--	--	461	6,130	6,591
Website	--	239	273	--	512	--	171	683
Editorial, artwork and design	--	104,303	--	--	104,303	--	--	104,303
Dues and subscriptions	449	1,798	449	449	3,145	225	1,579	4,949
Computer expenses	1,749	2,186	2,186	1,749	7,870	437	437	8,744
Storage	366	457	457	366	1,646	91	91	1,828
Supplies	2,476	3,095	3,146	2,476	11,193	619	619	12,431
Telephone/internet	955	1,194	1,194	1,340	4,683	239	239	5,161
Printing and reproduction	--	71,364	7,921	--	79,285	689	10,328	90,302
Occupancy	19,020	23,775	23,775	19,020	85,590	4,755	4,755	95,100
Postage and shipping	117	54,801	1,274	--	56,192	111	1,274	57,577
Travel	1,480	617	2,096	22,119	26,312	370	986	27,668
Conferences/conventions/meetings	586	244	830	17,036	18,696	146	390	19,232
Depreciation	1,383	1,728	1,728	1,383	6,222	346	346	6,914
Other expenses	351	439	439	351	1,580	88	88	1,756
	<u>\$ 219,905</u>	<u>\$ 494,724</u>	<u>\$ 255,617</u>	<u>\$ 416,013</u>	<u>\$ 1,386,259</u>	<u>\$ 103,069</u>	<u>\$ 112,839</u>	<u>\$ 1,602,167</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, 2021 AND 2020

	2021	2020
Cash Flows from Operating Activities		
Change in net assets	\$ 3,431,042	\$ 1,088,619
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized (gains) losses on investments	(924,064)	86,921
Depreciation	16,986	6,914
Paycheck Protection Program loan forgiveness	(116,827)	--
Change in beneficial interest in charitable remainder unitrust	(246,538)	--
Changes in operating assets and liabilities:		
Advertising and other receivables	(9,980)	(17,550)
Pledges receivable	(1,388,426)	(222,500)
Prepaid expenses and deposits	(52,635)	16,633
Accounts payable and accrued expenses	27,713	15,799
Grants payable	--	(659,088)
Deferred revenue	--	(3,600)
Deferred rent	31,516	--
Net Cash Provided by Operating Activities	<u>768,787</u>	<u>312,148</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	--	(65,236)
Purchases of investments	(996,095)	(2,489,568)
Proceeds from sales of investments	<u>686,793</u>	<u>2,839,251</u>
Net Cash (Used in) Provided by Investing Activities	<u>(309,302)</u>	<u>284,447</u>
Cash Flows from Financing Activities		
Proceeds from Paycheck Protection Program loan	<u>--</u>	<u>116,827</u>
Net Cash Provided by Financing Activities	<u>--</u>	<u>116,827</u>
Net Change in Cash and Cash Equivalents	459,485	713,422
Cash and Cash Equivalents - Beginning	<u>995,791</u>	<u>282,369</u>
Cash and Cash Equivalents - End	<u>\$ 1,455,276</u>	<u>\$ 995,791</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, 2021 AND 2020

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

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.

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.

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

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

NET ASSETS (CONTINUED)

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.

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.

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

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

INVESTMENT VALUATION AND INCOME RECOGNITION (CONTINUED)

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.

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. It is the Foundation's intent to distribute the funds raised in the current fiscal year as grants distributed to others in subsequent years.

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.

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

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

PROPERTY AND EQUIPMENT (CONTINUED)

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.

GRANTS TO OTHERS

Starting in fiscal year 2021, the Foundation's grant years (project years) were in full alignment with the fiscal year, with a start on October 1. Until this point, the Foundation's two grant programs - the Emerging Research Grants (ERG) program and the Hearing Restoration Project (HRP) - ran on two different 12-month cycles, both distinct from the Foundation's fiscal year:

- ERG: July 1 through to June 30 of the following year;
- HRP: June 1 through to May 31 of the following year.

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

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

GRANTS TO OTHERS (CONTINUED)

Aligning the grant years with the fiscal year significantly improved transparency and efficiency in managing the Foundation's funding streams and simplified reporting, with all grant expenditures per project made in one single fiscal year, as opposed to across two.

The move was made in several steps, including communication of the decision to all stakeholders and actors involved in the grant review and selection processes. Because HRP is a closed consortium with many projects being renewed each year, the Foundation decided to provide "bridge" funding to HRP 2019 projects to extend their work through to the start of the new fiscal year so there would be no "gap" in funding between the end of the HRP 2019 project year (end: 5/31/2020) and the start of the new HRP 2020-2021 project year (start: 10/01/2020). The planned bridge funding (equivalent to one third of the HRP 2019 award, to cover the four extra months) was reduced following the COVID-19 shutdowns, which severely limited the work that could be done on-site in laboratories. Since ERG awards are given to new recipients each grant year and are limited to one year of funding, the ERG 2019 grant year ended as planned on 06/30/2019, and the new recipients of funding for the ERG 2020-2021 grant year received their first payment on October 1, 2020.

ADVERTISING RECEIVABLE

The Foundation is the owner of "Hearing Health Magazine" and during 2021 and 2020, 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. A discount rate of 1.48% was used as of September 30, 2021, which represents the 10-year Treasury Note discount rate. 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, 2021 and 2020.

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

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

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. There is no allowance recorded as of September 30, 2021 and 2020 as balances are expected to be fully collectible.

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, 2021 and 2020, 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.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 11, 2022, 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.

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

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.

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, Preferred Stocks and Common Stocks – Money market, mutual and exchange traded funds, preferred stocks and common stocks are valued at the daily closing price. 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.

Beneficial Interest in Charitable Remainder Unitrust - This is a non-endowment investment holding. The value is based on the value of the underlying assets held, which are valued using fair value on a recurring basis using significant unobservable inputs.

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

There have been no changes in the methodologies used at September 30, 2021 and 2020.

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, 2021:

Description	2021			Total
	Level 1	Level 2	Level 3	
Common stocks	\$ 1,570,166	\$ --	\$ --	\$ 1,570,166
Preferred stocks	12,550	--	--	12,550
Mutual and exchange traded funds	3,641,264	--	--	3,641,264
Corporate bonds	--	3,617,952	--	3,617,952
Beneficial interest in charitable remainder unitrust	--	--	246,538	246,538
	<u>\$ 5,223,980</u>	<u>\$ 3,617,952</u>	<u>\$ 246,538</u>	<u>\$ 9,088,470</u>

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of September 30, 2020:

Description	2020			Total
	Level 1	Level 2	Level 3	
Common stocks	\$ 672,685	\$ --	\$ --	\$ 672,685
Mutual and exchange traded funds	5,806,529	--	--	5,806,529
Corporate bonds	--	1,209,205	--	1,209,205
	<u>\$ 6,479,214</u>	<u>\$ 1,209,205</u>	<u>\$ --</u>	<u>\$ 7,688,419</u>

The annual activity of the beneficial interest in charitable remainder unitrust is as follows:

Beginning balance, October 1, 2020	\$ --
Value of beneficial interest in charitable remainder unitrust received	<u>246,538</u>
Ending balance, September 30, 2021	<u>\$ 246,538</u>

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

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

NOTE 3 - PLEDGES RECEIVABLE

The following is a summary of the pledges receivable as of September 30:

	2021	2020
Receivable in one year or less	\$ 575,500	\$ 222,500
Receivable between one and five years	<u>1,091,000</u>	<u>--</u>
Gross pledges receivable	1,666,500	222,500
Present value discount	<u>(55,574)</u>	<u>--</u>
Net pledges receivable	1,610,926	222,500
Less: current portion	<u>(575,500)</u>	<u>(222,500)</u>
Pledges receivable, less current portion	<u>\$ 1,035,426</u>	<u>\$ --</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at September 30:

	2021	2020
Furniture and equipment	\$ 92,471	\$ 92,471
Leasehold improvements	<u>45,225</u>	<u>45,225</u>
	137,696	137,696
Accumulated depreciation	<u>(81,103)</u>	<u>(64,117)</u>
	<u>\$ 56,593</u>	<u>\$ 73,579</u>

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

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. 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.

	2021	2020
Purpose restrictions:		
Emerging Research Grants	\$ 132,967	\$ 210,744
Hearing Restoration Project	1,168,700	41,349
Research - Meniere's	220,094	100,000
Research - Tinnitus	20,000	20,000
Research - Hyperacusis	--	30,000
Research - California	10,000	5,000
Research - Texas	10,000	5,000
Research - Ushers	4,329	1,209
Research - General	789,825	359,825
Total net assets with purpose restrictions	<u>2,355,915</u>	<u>773,127</u>
Time restriction:		
Beneficial interest in charitable remainder unitrust	<u>246,538</u>	<u>--</u>
Total net assets with time restriction	<u>246,538</u>	<u>--</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	4,648,018	4,648,018
Total net assets held in perpetuity	<u>4,966,786</u>	<u>4,966,786</u>
Total net assets with donor restrictions	<u>\$ 7,569,239</u>	<u>\$ 5,739,913</u>

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

NOTE 5 - NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

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

	2021	2020
Hearing Restoration Project	\$ 768,406	\$ 466,855
Research - general	106,054	152,923
Education programs	--	5,000
Emerging Research Grants	297,777	276,756
Emerging Research Grants - Hyperacusis	100,000	--
Child research	10,000	20,000
	<u>\$ 1,282,237</u>	<u>\$ 921,534</u>

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.

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

NOTE 6 - ENDOWMENTS (CONTINUED)

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.

CHANGES IN ENDOWMENT

The changes in endowment funds for the year ended September 30, 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, October 1, 2020	\$ 438,908	\$ 5,006,153	\$ 5,445,061
Investment appreciation, interest, dividends, net	<u>977,192</u>	<u>8,084</u>	<u>985,276</u>
Balance, September 30, 2021	<u>\$ 1,416,100</u>	<u>\$ 5,014,237</u>	<u>\$ 6,430,337</u>

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

NOTE 6 - ENDOWMENTS (CONTINUED)

CHANGES IN ENDOWMENT (CONTINUED)

The changes in endowment funds for the year ended September 30, 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance, October 1, 2019	\$ 605,839	\$ 5,008,813	\$ 5,614,652
Investment depreciation, interest, dividends, net	<u>(166,931)</u>	<u>(2,660)</u>	<u>(169,591)</u>
Balance, September 30, 2020	<u>\$ 438,908</u>	<u>\$ 5,006,153</u>	<u>\$ 5,445,061</u>

Endowment funds at September 30 consist of the following:

	2021	2020
Cash and cash equivalents	\$ 42,910	\$ 160,987
Common stocks	1,328,576	672,685
Corporate bonds	1,264,434	538,635
Mutual and exchange traded funds	<u>3,794,417</u>	<u>4,072,754</u>
	<u>\$ 6,430,337</u>	<u>\$ 5,445,061</u>

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, 2021 and 2020.

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

NOTE 7 - BENEFICIAL INTEREST IN CHARITABLE REMAINDER UNITRUST

As of September 30, 2021, the Foundation is a residual beneficiary in one charitable remainder unitrust. The income beneficiary is to receive a distribution each year at the discretion of the Trustee.

Upon the death of the income beneficiary for the trust, the remaining principal is to be distributed to the Foundation, equal to 100%. The Foundation does not control the assets of the trust, and the expected future cash flow, which represents the fair market value of the trust's principal, totaled \$246,538 at September 30, 2021. This amount is reported in the accompanying statement of financial position. Changes in the value of the trust for the year ended September 30, 2021 have been reported in the statement of activities and changes in net assets as an increase in net assets with donor restrictions

NOTE 8 - 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 2021 and 2020, there were five contributing employees to the plan and the employer match was \$14,505 and \$19,200, respectively, which has been included as part of payroll taxes and benefits on the accompanying statements of functional expenses.

NOTE 9 - LEASE COMMITMENTS

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 \$20,000 during the year ended September 30, 2020 and is included in contributions on the statements of activities and changes in net assets. In addition, \$18,000 was received from CHI during the year ended September 30, 2020 for monthly shared office space that was also to be used to fund research and is included in other income on the statements of activities and changes in net assets. During 2020, the Foundation moved to a new office space and no longer shares space with CHI.

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

NOTE 9 - LEASE COMMITMENTS (CONTINUED)

During February 2020, the Foundation entered into a lease agreement for new office space and took occupancy of the building in July 2020. The terms of the lease are for a period of seven years and 4 months and rent expense is charged to operations over the term of the lease based on a straight line basis. Total resulting rent expense incurred during 2021 and 2020 was \$149,669 and \$88,818, respectively. The deferred rent liability related to recognizing the lease on a straight line basis was \$31,516 as of September 30, 2021. There was no deferred rent recorded as of September 30, 2020, as it was not material to the overall financial statements.

Future minimum lease payments under the lease agreement as of September 30, 2021 are as follows for the year ending September 30:

2022	\$	132,357
2023		135,997
2024		139,737
2025		143,579
2026		147,528
Thereafter		<u>164,475</u>
	\$	<u><u>863,673</u></u>

The lease agreement required a security deposit of \$57,872. In lieu of a security deposit payment, in February 2020, the Foundation obtained an irrevocable letter of credit for the benefit of the landlord through JP Morgan in the amount of \$57,872, which expired on January 31, 2021 and has automatic annual extensions not to go beyond July 31, 2027. The collateral on this letter of credit represents all deposits held with JP Morgan.

The Foundation transitioned to a new investment bank during fiscal year 2020 (U.S. Bank). As the above irrevocable letter required collateral in the form of deposits held, in September 2020, the Foundation entered into an irrevocable letter of credit with U.S. Bank for \$57,872 for the benefit of the Landlord, expiring on January 31, 2022, with automatic annual renewals not to exceed January 31, 2028. In December 2020, the Foundation closed the letter of credit held with JP Morgan.

As of September 30, 2021, there were no drawings on the letter of credit with U.S. Bank.

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

NOTE 10 - PAYCHECK PROTECTION PROGRAM LOAN

During May 2020, the Foundation received a loan (the “PPP Loan”) from JP Morgan Chase Bank in the amount of \$116,827 under the Paycheck Protection Program and a \$6,000 advance under the Economic Injury Disaster Loans program (“EIDL Advance”), both established by the Coronavirus Aid, Relief and Economic Security Act. The EIDL Advance did not have to be repaid and recipients did not have to be approved for an EIDL Loan to receive this advance. The EIDL advance of \$6,000 was utilized for approved expenditures and is included with other income on the statements of activities and changes in net assets for the period ended September 30, 2020.

All or a portion of the PPP Loan was eligible to be forgiven by the U.S. Small Business Administration (“SBA”) and the lender upon application by the Foundation, provided that the Foundation used the loan proceeds for eligible purposes, including the payment of payroll, benefits, rent, mortgage interest and utilities, during the 24 week period beginning on the date of funding of the loan (the “covered period”).

The Foundation used the loan proceeds during 2021 solely for approved expenditures, including payment of payroll, consistent with the requirements of the PPP Loan for loan forgiveness. On January 27, 2021, the Foundation received notification that the PPP Loan was fully forgiven. The PPP Loan totaling \$116,827 was recorded as a loan forgiveness under non-operating activities in the statement of activities and changes in net assets for the year ended September 30, 2021.

NOTE 11 - 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.

HEARING HEALTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

NOTE 11 - LIQUIDITY AND AVAILABILITY OF RESOURCES (CONTINUED)

The following table reflects the Foundation's available financial assets as of September 30, 2021 and 2020. 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.

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 1,412,366	\$ 834,804
Accounts receivable and current portion of pledges receivable	603,030	240,050
Investments not subject to restrictions	<u>2,454,505</u>	<u>2,695,455</u>
	<u>\$ 4,469,901</u>	<u>\$ 3,770,309</u>

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

NOTE 12 - RISKS AND UNCERTAINTIES

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States and the world. The COVID-19 outbreak has caused business disruptions through mandated and voluntary closings of businesses across the country for non-essential services. There is still considerable uncertainty about the duration of the pandemic and the extent to which COVID-19 may impact the Foundation's operations and financial condition, including the financial condition of the Foundation's contributors to continue their support of the Foundation's mission.